MARKET DILEMMA— INFLATION vs LOWER EARNINGS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JULY 5, 1958

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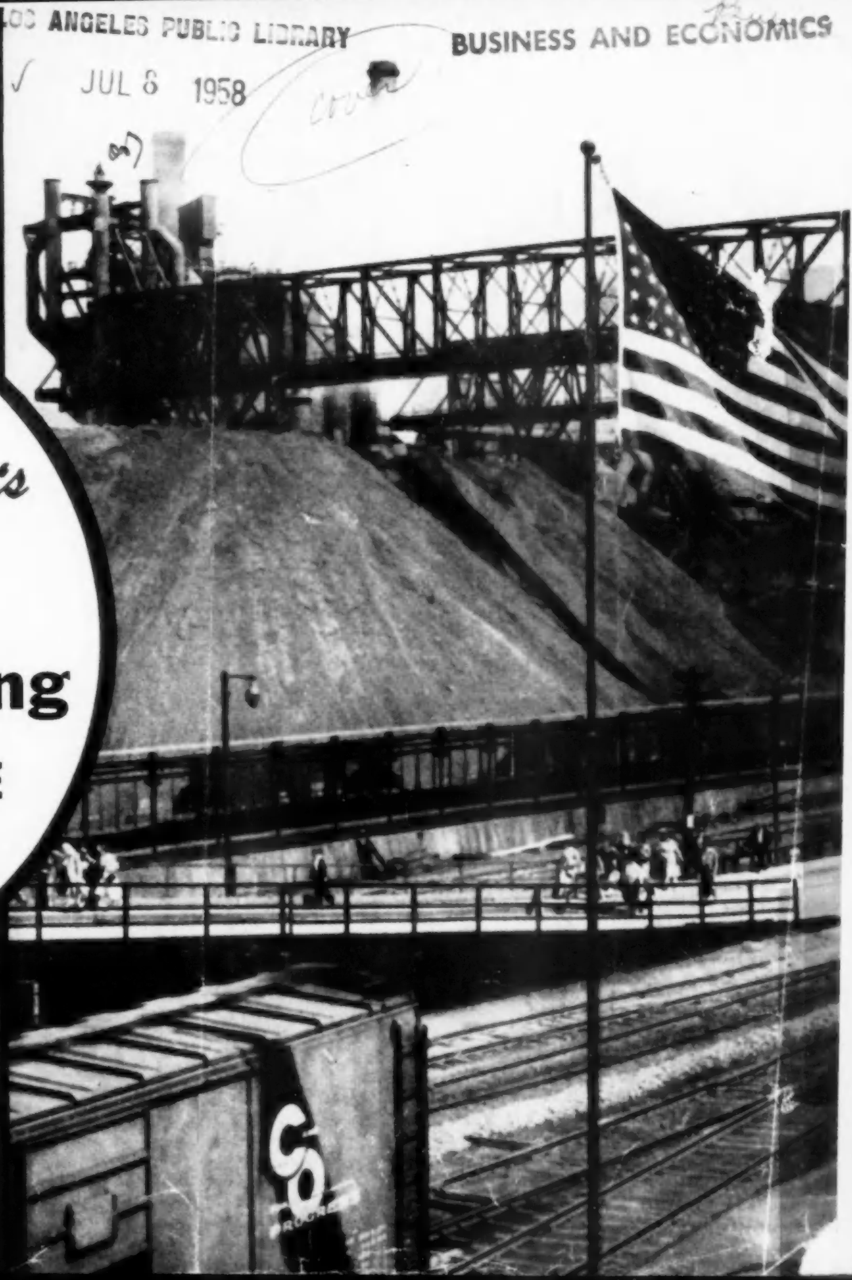

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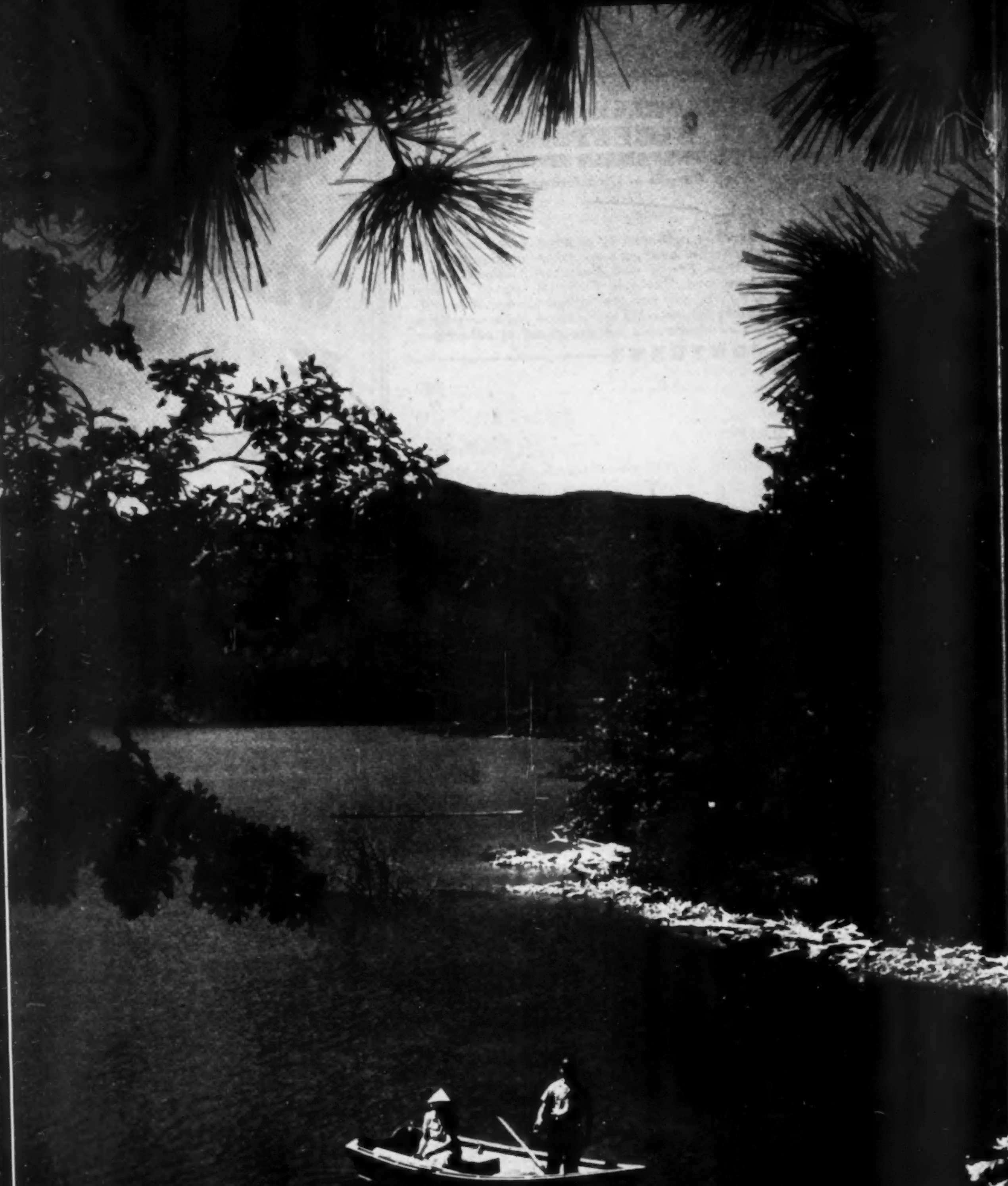

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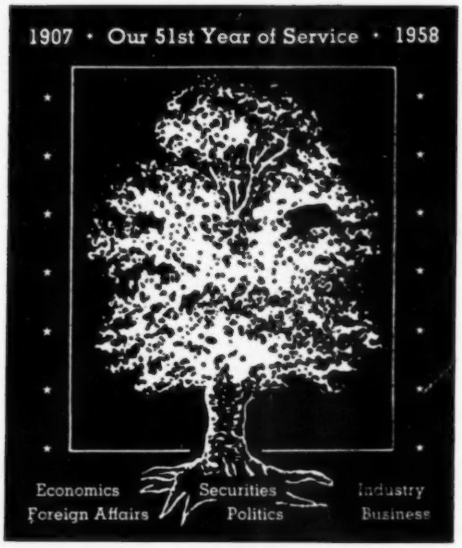
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

THE ROAD TO BANKRUPTCY . . . One of the most interesting phenomena of the times is the laisser faire attitude by industry and government toward labor, both of which are taking the course of least resistance, instead of putting up a fight against what we recognize to be a situation of the utmost danger to our country.

What is called for is the initiation of a campaign that will make the citizens of this country and the rank and file of labor aware of the economic facts of life, for the truth is we have been pricing ourselves out of the market at home and abroad, and increasing the cost of government, making back-breaking taxes or devaluation an inevitability.

All activities are being directed towards accepting the status quo in current and prospective labor costs, while the citizens of the country are being called upon to finance this Frankenstein monster which, as a result of the recession, is accelerating its destructive characteristics inch-by-inch and yard-by-yard.

The latest case in point is the new subsidy that is being considered for ship-building, which in the past consisted of a 50% government allowance in order to make up the sizeable difference between American and foreign ship-building costs.

But today, according to the latest figures available, wages and prices have risen to such a point that it costs us 3⅓ times as much to build a ship in our country as it does abroad, or, on a percentage basis, 233% more! For example, the building of a 12,500 ton freighter in Japan is about $2,950,000; in Germany the price would be about $3,263,000, but in the United States the cost would run to $10,000,000 — and up!

Thus, even if the government continued the 50% subsidy, it would be cheaper for a shipping line to build abroad or, as an alternative, demand an increased subsidy from the government to make up the differential between construction costs in domestic and foreign yards.

This would either leave the taxpayer holding the bag, or pull out the props that enable our own ship-building industry to survive. And, what is more, the taxpayer, in addition, would at the same time be called upon to finance these highly inflated ventures in the securities market.

What we have cited here regarding ship-building costs is true in practically all industries. As a result, investors are seeing their capital dwindle, with many companies showing a decrease of 40% in earnings on a loss of only 15% in sales because of the built-in charges.

The railroads are one of the worst sufferers, since labor costs represent about one-half operational expenses, and the problem is aggravated by feather-bedding. The roads are being ground between the upper and nether millstones of archaic practices. For example, a labor crew often receives 200 miles of pay for 100 miles of work due to outmoded rules which were originally made in slow-moving steam engine days.

The people of this country—the taxpayers—are feeling the effects of this situation in higher living costs and uneconomic taxation, yet neither of these ills can be corrected until we demand a realistic solution of the labor problem.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Our 51st Year of Service"*—1958

As I See It!

By JAMES J. BUTLER

CONGRESS LETS US DOWN

Gripped by a spirit of laissez faire when bold action should be the order of the day, Congress is moving with pedestrian pace, calendar-watching against a mid-August adjournment date which will release Senators and Representatives for fulltime attention to the job of feathering their own political nests. Lack of direction is obvious. Temporizing is the watchword. The sense of urgency is gone and everywhere are evidences of complacent acceptance of the status quo.

To put it bluntly, Congress is on a sitdown strike and more-or-less has been for several weeks. There was an early Spring spurt of activity. Then things phased off. The lawmakers are bemusing themselves that the public will assume that the job is being done because routine appropriations bills are moving through the legislative mills. Sound and fury has marked committee hearings and floor discussions on foreign aid and trade but for the most part the bills which might create thought have been sidetracked or rewritten out of practical usefulness.

Capitol Hill has gone along with the Administration on the proposition that the recession can be ridden out. If you stare at it long enough and intently enough, it will go away! So, in the meantime, Congress is seeking no lessons from the current business drop, taking no steps to make the country better equipped for the next one. There is no shoring up of the structure of government contemplated in any bill which has advanced to the committee hearing level.

The Joint Economic Committee of Congress is circulating among its members a document that is startling if not downright frightening. It appraises the situation and the outlook in terms that should have jolted Congressmen into action. It didn't. Here is one passage:

"It appears that recovery to the long-run potential is unlikely to be completed before mid-1959 at the earliest and might not be achieved until late in 1960."

It must be borne in mind that this is not a headline-seeking outpouring, lightly to be dismissed. It comes from a Joint Committee of standing and influence. It is based on extensive staff studies supervised by a cross-section of Congressional thinking ranging from Rep. Wright Patman to Senator Ralph Flanders; from Senator Paul H. Douglas to Senator Barry Goldwater. The Committee includes such men as Senator J. W. Fulbright, chairman of the Senate Banking Committee, and Rep. Wilbur Mills, chairman of the tax-writing Ways & Means Committee.

All indications suggest the report will be filed away "for future reference." Yet in its findings and suporting data is material that should spark action on a dozen neglected legislative fronts.

As of May 30, Congress had been in session for five full months. You can count on the fingers of your hands the items of major legislation the solons had disposed of—seven in all, two of them successfully vetoed by the President which reduces the net to five. What were these five? Pay raises for the military forces, pay raises with accompanying postage boosts for postal workers, an emergency housing bill, increase in the debt ceiling, an installment on the highway program, plus the two that fell under Ike's pen—farm price supports freeze, and the rivers and harbors pork barrel bill.

Foreign trade and aid bills were well enough advanced to insure early passage but Defense Department Reorganization had just come out of a House Committee and was headed into long and acrimonious debate. For what purpose seems not altogether clear. There were many provisions in the White House measure which the President could make effective by the stroke of pen on an Executive Order. Some even by telephone.

Five Months Record

The rest of the schedule of action, where there was any, runs like this:

- Space agency creation, reported favorably in the House while the Senate Committee completed hearings and marked time.
- Atomic secrets sharing, approved by committees of both Houses, and stopped there.
- Surplus disposal, passed the Senate with hearings completed in the House.
- Pay raise for Federal employees other than postal workers, passed both Houses and in conference. (Since signed by Ike.)
- Federal scholarships, passed committees of both houses—and stopped.
- Welfare fund disclosure, passed by the Senate.

The House Committee was dragging its feet.

▶ The Better-Than-Nothing Labor Law revision, action completed in the Senate. Hearings under way on the House side with early action in doubt.

▶ Local public works program, passed by the Senate, hearing completed in the House.

▶ Unemployment benefits passed by both branches. (Since signed by Ike.)

▶ Small Business Administration, revision, passed by the House and awaiting Senate action.

▶ Alaska Statehood, passed by the House and awaiting Senate action. Hawaii Statehood trailing the procedure.

▶ Several appropriations bills had been approved but the big ones, military and foreign aid, were in process.

Delayed Action on Key Measures

There stands the five-month record, barren of final action on anything more than Federal housekeeping.

Taxes – forgotten, evidently, was one of the prime promises of both political parties last January: Revision and equalization of Federal tax laws. This reform was launched with gusto and rivalry between republican and democratic leaders for the credit that would come from legislation to close tax loopholes, insure approximately the same amount of revenue as was received last year, with the inequities that have grown up through the years removed. Early in January, the House Ways & Means Committee launched public hearings, concluded the sessions within two months and had a detailed printed report in circulation. The cure wasn't complete, but it was a start. It was estimated that more than $2 billion in escaping taxes would be captured and the free ride ended for individuals and groups which had enjoyed this annual "gift" over the years. The Senate seemed equally anxious to get at the business of tax equalization. There hadn't been a Revenue Act general revision in about five years; there had been no special investigation aimed at tax-dodge practices in many more years than that. Here was the opportunity! It's still there, but the crusade has ended because it became enveloped in the new and more immediately interesting question of which party would get credit for tax reduction. For months the republicans and the democrats have played cat-and-mouse. Each side has had bills poised to be slung into the hopper the moment the opposition showed signs of moving toward legislation. Scores of bills have been drawn and introduced but by tacit agreement there was to be one omnibus measure–if the time came.

The time consuming and attention diverting byplay has gone by the boards. The Administration has persuaded both leaderships that tax reduction is not feasible at this time, promised to divide the political pie of credit if there is a change in the situation.

SOCIAL SECURITY–The Congressmen also labored with the idea of extended benefits to tide the growing army of jobless over the period of recession. Then they brought forth a mouse-like proposition that most Governors promptly rejected.

RIVERS & HARBORS–The solons brought forth a rivers and harbors improvement measure that was so loaded with pet projects of nothing more than political value, that President Eisenhower vetoed it and the Congressmen didn't have the nerve to defend their actions by attempting to override.

"Come On Chief, Lead the Way!"

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SCIENTIFIC SCHOLARSHIPS–The threat of Sputnik was to be met by a vast program of scholarships for scientific studies. Committees on both sides of the Capitol listened with outward show of interest. Then they didnt' even bother to write reports saying whether the idea was good or bad.

LABOR LEGISLATON – Senators and Representatives fumed over abuses by organized labor's leadership and vowed they'd put an end to it. Given the opportunity to make a start, the Senate passed a watered-down measure largely written by George Meany and his AFL-CIO staff. When Senator William Knowland took one of the major rejected planks into the California primary (right to work) he was crushed by negative votes. After that such erstwhile stalwarts as Senator John McClellan came out for a Senate bill which even Labor Secretary James P. Mitchell said was less than worthless. The line forms on the right. It will be a long line!

However, as a result of continuing pressure, there exists the possibility that a worthwhile Labor Bill may yet be passed by Congress, preserving at least the better features of the legislation requested by the Administration. Such a bill would be more in conformity with the views of the Secretary of Labor.

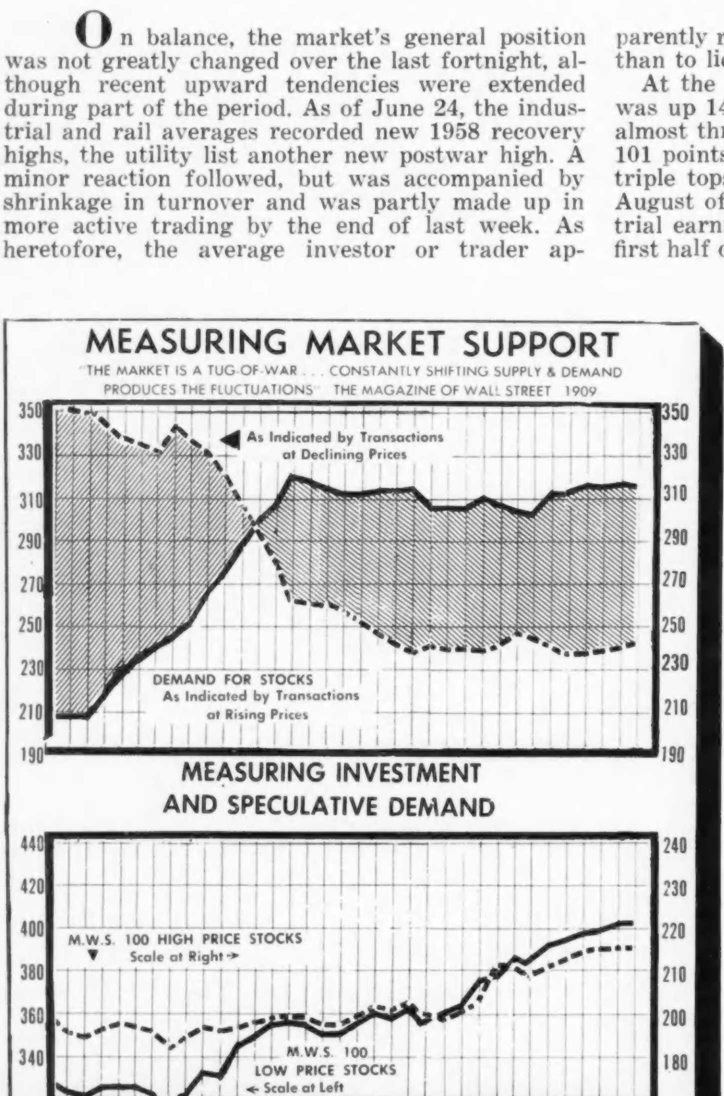
Market Dilemma— Inflation Versus Lower Earnings

The market has discounted more recovery in depressed earnings than is likely in the next 6 to 12 months, and is putting much emphasis on long-term inflation. The latter is more iffy than some imagine, also less germane. Moreover, there are many detours on the long-term road. Keep your eyes on earnings, your feet on the ground.

By A. T. MILLER

On balance, the market's general position was not greatly changed over the last fortnight, although recent upward tendencies were extended during part of the period. As of June 24, the industrial and rail averages recorded new 1958 recovery highs, the utility list another new postwar high. A minor reaction followed, but was accompanied by shrinkage in turnover and was partly made up in more active trading by the end of last week. As heretofore, the average investor or trader apparently remains more inclined to hold or buy stocks than to liquidate.

At the best level to date, the industrial average was up 14% from last October's low, had made up almost three-fifths of 1957's July-October decline of 101 points, and was little more than 8% under the triple tops, around 520-521, recorded in April and August of 1956 and July of last year. Since industrial earnings are far under those of 1956 and the first half of 1957, and are not subject to wide betterment for some time to come, to call the market's performance remarkable is understatement.



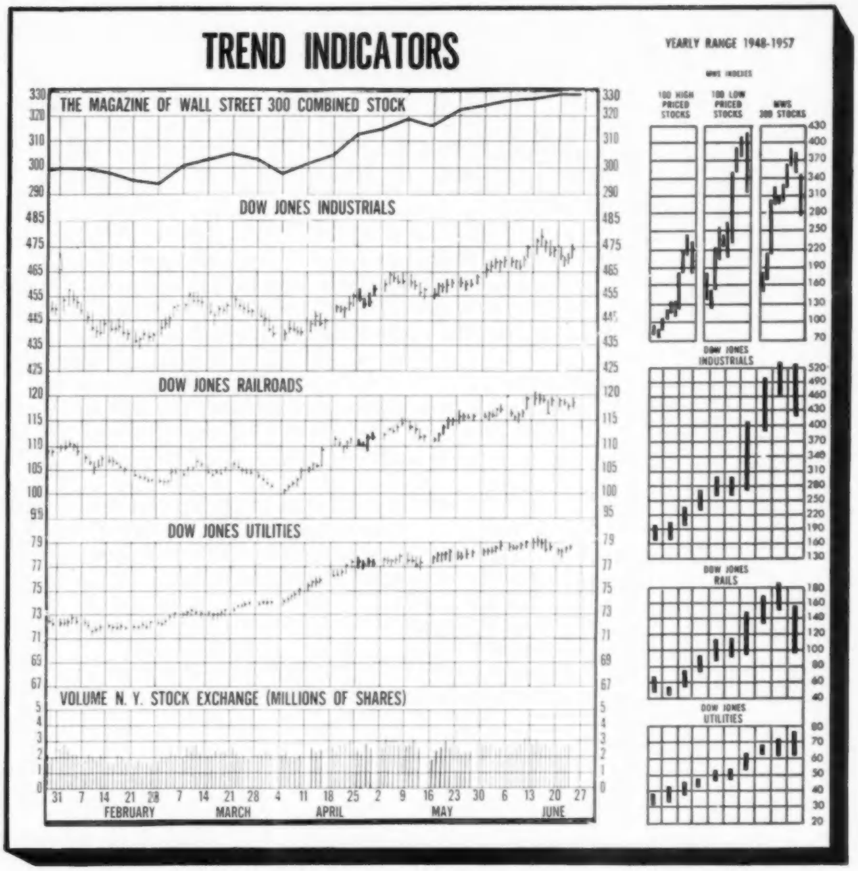
State Of Mind

We could fill these two pages, and more, with facts and statistics which have always been supposed to have a significant bearing on stock values—which are by no means the same thing as stock prices. But figures make dull reading; and stock prices are largely a state of mind, reflecting investment-speculative hopes or fears for the future.

Since nobody can have a road map of the future, the hopes or fears usually prove wrong in greater or lesser degree. How can stock prices go up without the aid of rising earnings and dividends? Well, if more people want to buy than sell potatoes, the price goes up. Same potatoes, higher prices. Unlike a suit or a dress, a television set or an automobile, stocks do not attract the maximum number of buyers at cut-rate prices. More get the itch to buy at rising and high prices.

The consensus is that the low point in average stock prices was put behind last October. It is probably correct because (1) rallies in bear markets do not usually run to anything like eight months or more; and (2) there are increasing indications that the low point of the business recession has been seen or approximated.

There is confidence in at least a slow and moderate business recovery over the medium term, with a material improvement expected by the fourth quarter. This basic premise probably is correct, although the degree of revival by the year end could prove disappointing. There is faith in eventual resumption of long-range growth of economic activity, corporate profits and dividends. No doubt it will prove justified; but the wait could be long, the rewards in terms of stock values cannot be realistically appraised at this stage; and, meanwhile, there will be a number of bridges to be crossed.



Finally, there is a consensus that we face more long-term inflation, possibly of substantial scope; and that, in broad terms, this threat makes ownership of common stocks preferable to holding cash or fixed-income securities. Based on the long record of depreciation of the dollar's purchasing value with only temporary interludes of stability, the prospect of substantial Federal deficit financing for some time to come—and the basically unchanged wage-cost-push policy of the labor union monopolies—this viewpoint is certainly plausible and might be right. Right or wrong, there is an inflationary state of mind now at work in the stock market.

The case for more inflation in significant degree over, say, the next three to five years, if not also on a secular basis, is actually somewhat "iffy" and not conclusive. By far the greater part of the inflation that has been burned into the memory of investors stemmed directly from World War II and the Korean War.

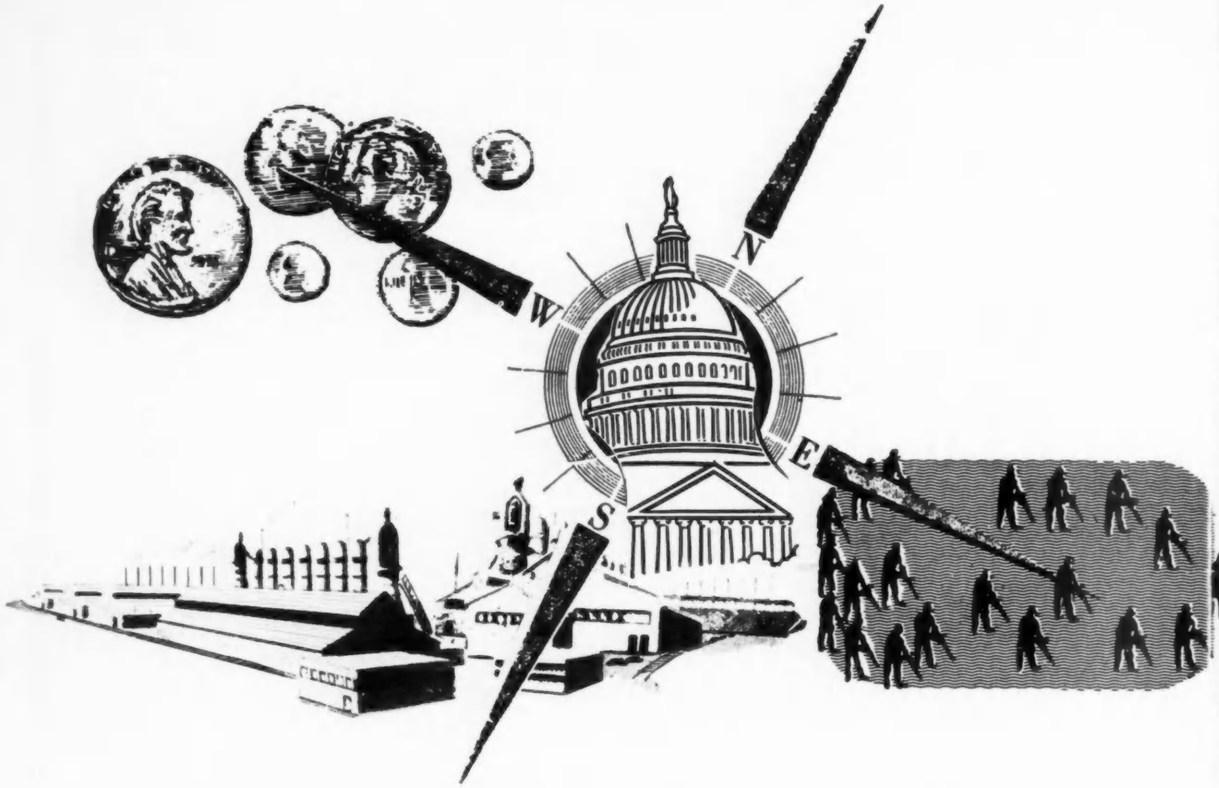
The deficit spending of the early New-Deal years got very limited results in economic stimulation. It was smaller in dollars than the presently indicated deficit, but larger in relation to the size of the economy, as measured by gross national product, production or any other way. It is one thing to expand the money supply by deficit financing and an easy-credit Federal Reserve policy, another thing for the money to be actively used in economic expansion when existing facilities in most industries are ample or excessive.

The wage-cost-push inflation, without support of deficit financing, was a phenomenon primarily of the three years 1955-1957. It was facilitated by full employment, which we will not again have for some time ahead; and by a durable-goods boom, which also will not be repeated any time soon. Many products have been partly priced out of the market. Under anything but boom conditions, it will be less easy for employers to pass along higher costs in prices, and therefore less easy for unions to get excessive wage boosts.

No Correlation Provable

Assuming more inflation, however, does it guarantee higher stock prices? Only in the long run for stocks whose earnings go up. Many stocks, despite inflation, have yet to get back to their 1929 highs, and more are under their 1946 highs. You can say that from the 1939 level the industrial average rose 283% to its 1946 high, while the value of the dollar was more than halved—but the net market rise really rested on a 320% growth in total corporate profits. In 12 months after May, 1946, the consumer price index rose 18%, but the industrial average fell 23%; while from September, 1953, to the 1956 top the average rose 104%, without any net rise in living cost. The difference? State of mind.

You now see a market rise tending to feed on itself and becoming more speculative. If the whole story were "pressure of institutional funds" and "fear of inflation", why were two-thirds of last week's most active stocks low-priced issues qualified neither for institutional funds nor as inflation hedges? We repeat. The market is largely a state of mind. The state of mind can and will change. That is why we get ups and downs, often inconsistent with the statistics. Keep your feet on the ground. Few stocks are attractively priced.—Monday, June 30.



New Type Dangerous Inflation We Are Drifting Into

—How can we stop it?

By Howard Nicholson

OF all the words in the economist's vocabulary, perhaps none has been as popular in the post-war years as "inflation". Yet the meaning of inflation, its causes and its consequences, remain in a kind of shadowland. Several kinds of "inflation" are referred to interchangeably in the business press, and the opinion is widespread that the word means the same thing, at all times, to all people.

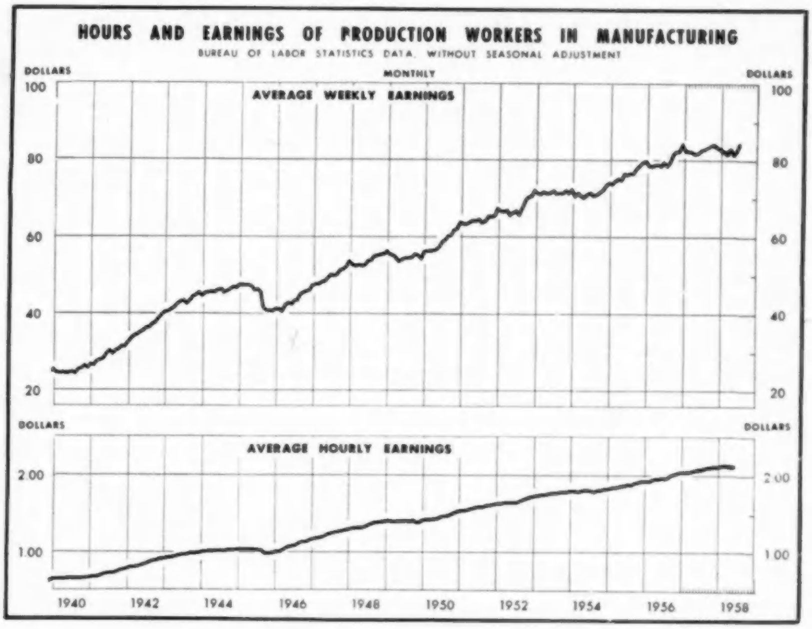
This semantic confusion is natural enough in 1958, because until very recently we were thinking in terms of a particular kind of inflation, namely, monetary inflation, the thought of which has been present in such overwhelming force that the other forms have paled into insignificance beside it. We are going to show in the following analysis that this period has come to a definite end—that "inflation", with which everyone is familiar, is no longer a single or simple phenomenon; and that the standard prognosis and treatment so often mentioned (and so rarely applied) in the past are largely irrelevant to the inflation of 1958.

The standard definition of inflation in the past has been—"an excess of money chasing an inadequate supply of goods." Under this definition, the value of goods would presumably rise as a result of competitive bidding, and the rise in prices become the distinguishing hallmark of the inflation.

One need be no student of economics to recognize in this capsule description much of the history of American business since the early 1940's.

During the years of World War II, the nation was called upon to finance a rate of government outlays which eventually reached an annual total representing more than 40% of the national output. To meet this desperate national need, tax rates were drastically elevated, in both the personal and corporate sectors. Among corporations, the marginal tax rate in the later war years was 95%; in the personal sector the top marginal bracket reached 91%. These rates were so close to confiscation that only national patriotism under wartime conditions can explain its ready acceptance by our citizens as well as the intense effort that went into the tremendous production of the war years. And yet even a substantially higher level of tax rates would have been required to balance the federal budgets of those days. But because increased rates would have cut deeply into incentives, and hence would have been partly self-

defeating, the federal government ran the most prodigious deficits in its history. For three years in a row, the annual deficit exceeded $50 billion, and in the five fiscal years of the war, from fiscal 1942 to fiscal 1946, the cumulative deficit exceeded $200 billion. The gross public debt soared fivefold—from about $55 billion to almost $270 billion.



HOURS AND EARNINGS OF PRODUCTION WORKERS IN MANUFACTURING

Under War Conditions

During these years, there was, clearly, "an excess of money chasing a shortage of goods", for the wages and salaries paid out in defense production were not paralleled by any output of consumption goods to absorb them. In the absence of price controls, the meager existing supplies of goods would simply have been bid up to the astronomic levels required to clear the market. Under the regulation of price controls, the value of the supply of goods was held relatively constant, and the excess money was forcibly channeled into saving. As a repository for these forced savings, the federal government thoughtfully provided the war savings bond, which absorbed about $40 billion of the "excess" money": the rest found its way into private and corporate demand deposits, private savings deposits, building and loan shares, and government securities other than savings bonds. This enormous, restless hoard of money lay temporarily idle, as the nation went about the business of finishing the war.

When War Was Over

But at the end of the war, America was beset by all of the essential ingredients of classical inflation, in thoroughly explosive quantities; absolute shortages of a broad range of consumer durables; inadequate dwelling space for 12 million returning veterans anxious for the good things of life; a physical plant in the throes of reconversion, and badly in need of modernization as well; and a flood tide of liquid assets entering the market place. This *was*—"the excess of money chasing the shortage of goods"—in as pure and unexaggerated a form as any classroom exercise. When price controls were removed, the flood tide of funds seeking goods overwhelmed the supply of goods, and the price level was catapulted upward in a long-term inflationary trajectory.

It is this process—operating through federal deficits, the sale of federal securities to the commercial banking system, and Federal Reserve action increasing reserves to enable banks to buy government securities without curtailing their credit operations—that constituted the prevailing idea of inflation. And because the essence appeared to lie in the "relationship of the supply of money to the supply of goods," the devices for controlling it took the form of rationing credit, and the price of credit, through the Federal Reserve's authority in the areas of the discount rate, open market operations and reserve requirements. While there is much debate over the efficacy of these tools, and the efficiency with which thy have been used in the past, it is at least true that the tools were relevant to the job at hand as long as inflation appeared in its classical form.

But Now

But is it still taking that form? Can inflation today be expressed in terms of "an excess of funds chasing a shortage of goods?" There are many businessmen who would ruefully reverse that expression in mid-1958. Their problems are more nearly in the nature of trapping a scarce dollar as it wanders through a maze of abundant goods. Is this reversal surprising? It is not. The monetary inflation of the postwar years is producing its own unpleasant corrective—for, as prices rise, the value of the dollar declines, to strike a balance in "real" terms, between dollars and goods. That is, the balance will be struck unless a substantial continuing injection of dollars is tolerated by fiscal authorities.

To the credit of postwar administrations, the total money supply has not risen rapidly in the postwar years, despite very heavy demands on the federal government for defense. And business and labor have done their share as well; the national rate of production of goods has risen irregularly but nevertheless substantially, and productivity and new investment have helped swell the supply of commodities available to meet the supply of money..

Has the inflation problem been solved, then? Have fiscal integrity, on the part of government, and production gains finally brought the rocketing postwar inafltion under control?

The New Type Inflation

It is the writer's thesis that the old post-war inflation, expressed in terms of "an excess of funds chasing a shortage of goods" is no longer a real threat to national stability—that tilting at it, while a healthful and popular exercise, no longer serves a practical purpose.

Let us therefore deal with the new, real, and threatening form of inflation that has now appeared. This new form requires our undivided attention, for it is systematic, and it is progressive. While it is unlikely to reach the stage of "galloping" inflation characteristic of the classical model, it nevertheless presents a serious maladjustment, with drastic consequences for national growth and individual equity.

Under the shadow of the classical inflation of the past fifteen years, there have appeared a number of parasitic institutions which have now developed a life of their own. First in importance is the industry-wide labor contract involving productivity adjustments and escalation clauses for several years in the future; and a leap-frog pattern of bargaining which challenges unions to beat the last settlement. Under conditions of rapid inflation and full employment, these institutions have resulted in a sharply rising unit labor cost. Whether this expansion of unit labor costs has led the rises in prices or followed it is an interesting but perhaps insoluble problem; What is much more relevant is that the rise in labor costs threatens to continue beyond the point at which the prices of finished goods can continue to go along. This is the basic form of inflation in 1958. Where does it lead, and what can be done about it?

If these circumstances are treated in terms of classical inflation, one might argue that this pattern of so-called "wage inflation" carries its own cure: if wages continue up after prices can no longer rise, some producers will be priced (or better, "costed") out of the market. Their plants will be idle, and the resulting unemployment will operate to restrain the rise in wages. Similarly, if rising wages and prices tend to price us out of foreign markets, the resulting loss of export business will again increase our unemployment, and multiply the pressures on labor and wage rates. So long—the argument goes—as no new money is added to the nation's money supply, further wage pressures will be generating further unemployment, which will be progressively dragging the wage rate to a halt. Under these conditions, management-labor bargaining will become increasingly realistic, and new, noninflationary bargaining patterns will develop.

Not Working Out That Way

One can hardly question the logic involved in this position, and *one must admit that it used to work out that way.* At the same time, there is at mid-1958 a compelling collection of evidence that it *need not* work out that way, and even some evidence that it *is not* working out that way.

For in addition to an inflationary pattern of wage-bargaining, the postwar years have seen the development of a few other potentially inflationary institutions. The first of these is a political commitment of the federal government to maintain employment at a full-employment (or hyper-full-employment) level. While unemployment is sobering the atmosphere in which management-labor bargaining takes place, it is crying havoc through the halls of Congress, and inciting even conservative Republicans to contra-cyclical spending (and/or tax relief). At the same time, the rising trend of wages, even though at a subdued rate, is greatly raising the cost of defense equipment, of the postal service, of road-building and school-manning. And finally, the "cyclical snubbers" such as unemployment insurance, social security and high tax rates—all of which tend to maintain or increase the flow of cash to the public during recession—is elevating the government spending rate relative to income.

As a result, the same recession pressures which are supposed to bring the wage rate under control also tend to generate massive federal deficits. Over the short term, these deficits amount to diverting the burden of the recession from the private sector to the public sector; the medicine for the private sector is thereby diluted. Over the longer-term, the additional monetization of debt implicit in the federal deficit is inexorably paving the way for further inflation of the classical type when the present recession is over.

Goods or Dollars

Indeed, the seeds of such an inflation are already well sown; in company after company, economists have looked long and thoughtfully at the estimated $12 billion federal deficit forecast for fiscal 1959, and have then urged their managements to stop liquidating inventory and to start accumulating against the probability of future rises in prices. The banking system stands ready, willing and able to provide the funds necessary for such a reversal in inventory policy.

On these grounds, one can be excused for wondering whether the price outlook is not now for alternating bursts of wage inflation and monetary inflation, separated by a brief bout of unemployment. And one is inclined to look with consternation, and also with sympathy, at monetary authorities who must count on recession to restrain wages and prices, and must at the same time act vigorously to cure recession, thereby fueling the next inflation.

If this diagnosis is near the mark, what can be done about it? It is often said that a people get the quality of government they deserve; it might also be said that they get the degree of price stability they deserve. Perhaps the ultimate solution rests with an educated public opinion, determined to arrest a dangerous inflation. It is to be hoped that the several private and public commissions and research foundations at work in the general area of monetary policy and inflation will contribute toward a higher level of national education and awareness.

But the most realistic solution is in the hands of our labor leaders, who are unquestionably well aware of the uneconomic wage structure, multiplied many times by costly abuses, such as featherbedding and outmoded rules that were operative many years ago but no longer apply to modern conditions. It is in their hands to take the first step in eliminating the regulations and practices of labor unions that add greatly to costs—and, with that out of the way, voluntary steps can be taken to end the vicious upward wage spiral. This is bound to bring lower prices and one realistic adjustment after another.

The alternative appears to be unhappy, for it would call for direct wage-price controls, involving a further exercise of government influence over the private sector, and hence a freezing of constructive developments in the economy and its free institutions. This would increase the danger of state socialism, with all that it implies in bureaucratic controls and deprivation of our liberties as citizens. —END

Our Stake In LATIN AMERICA

- **What we have done**
- **What they want us to do**
- **What we can do**

By Eric W. Ollstein

PRE-OCCUPATION with the economic welfare of Nations in Europe and Asia has dangerously diverted attention from the stake the United States has in trade and political amity with Latin American republics, an omission forcefully underlined by the Nixon visit and the somewhat sketchy re-appraisal which followed.

It would be comforting to accept the theory that the violence shown to the Vice President and his official party was merely a Communist manifestation. But the fact is that the Reds, acknowledged to be the ring leaders, were able to heap insults upon the United States in what was regarded as friendly territory, without serious intervention from officials and police of those Nations and with some signs of approving connivance.

Further signs of deterioration came when Generalissimo Rafael Trujillo, boss of the Dominican Republic, ordered home all Dominicans being trained in United States military schools and announced: "The Good Neighbor Policy is a thing of the past." Trujillo was irked because his free-spending playboy son failed to receive a diploma from the military school he more-or-less attended. Regardless of how flimsy the reason, the fact remains. And Trujillo stands out as Latin America's No. 1 foe of communism; he stopped the commies from gaining a foothold during World War II, and he was militarily helpful to the allied democracies.

Colombian Foreign Minister Makes Suggestion

Against the obvious urgency of repairs to the damage which has been spreading in recent years, there is a somewhat disturbing attitude on the part of the State Department. "Watchful waiting," which in this situation is synonymous with inaction, seems to be the rule. One of the great opportunities was presented only a few weeks ago, June 17, to be exact. Columbian Foreign Minister Carlos Sanz de Santamaria kept an appointment with Secretary of State John Foster Dulles to propose plans for a September meeting of foreign ministers of the 21 American republics. The Minister made the suggestion for a meeting at Bogota as a new step to strengthen inter-American ties. Specifically, he asked that our government listen to the reasons why Latin American relations be given top priority. He carried the message that there is growing feeling in his country and among its neighbors that the element of proximity, in all its implications, has not been properly assayed in Washington.

Senor Santamaria wanted no tin-cup treatment. He didn't approach Dulles' office with hat in hand; nor was he belligerent. He would point out, he made it known in advance of his call, that Latin America

is facing a "social revolution" and needs all available help in its efforts to industrialize and get away from a purely agricultural economy. He visualized vast mutual benefits. And, he said, a meeting of foreign ministers could be used to appraise thoroughly economic discontent in some Latin American countries and would serve as a means of coordinating policies for the next UN General Assembly.

The Columbian plan appeared to be directly in line with an exchange of letters between President Eisenhower and President Juscelino Kubitcheck of Brazil in which the two agreed on the need for new approaches to cement hemispheric friendship. Based on the implied assurances of this correspondence Kubitcheck has proposed a sweeping economic development program for his country.

State Department Response

What was Secretary Dulles' reaction to this opportunity? His spokesman said the proposition is "under consideration." Then the Department was ready with two "but's." But, it was pointed out, OAS (Organization of American States) has scheduled an inter-American meeting about midway through 1959, at Quito. The suggestion is that, maybe, it would be all right to mark time. And, then, there had been one meeting of heads of the governments of the Americas at Panama, in 1956. Some of the proposals formulated at that session haven't been implemented. So there is a backlog of things to be done—possibly; and at some undetermined date.

Soviet Program and Gains

Latin Americans are tiring of the description "banana countries" as a generic term for a family of nations that boasts beautiful modern cities, vast and only partly developed natural resources, and recent strides in industrialization. The present Soviet economic offensive is carefully shaped to exploit both the aspirations and the dissatisfactions of the less developed nations of the world. That fact was recognized by President Eisenhower in his opening messages to Congress dealing with the State of the Union and the budget. It is recognized by the State Department, too. Witness the statement by C. Douglas Dillon, Deputy Under Secretary of State: "It is of the greatest importance that the American people, now well aware of the technical and scientific challenge posed by the Communist world, understand and rise to meet the equally great, and perhaps more subtly dangerous, offensive which the Sino-Soviet bloc has vigorously launched in the less developed areas. This offensive represents an attempt by the Sino-Soviet bloc to employ its growing economic and industrial capacities as a means for bringing the newly-developing free nations within the Communist orbit."

It is idle to suggest "it can't happen there" meaning in Latin America. The operations of the Soviet economic offensive may be studied by examples from the Middle East. Before 1955, for example, Yemen had virtually no economic ties with the Soviet bloc. In the last few years, Yemen received an estimated $19 million in Soviet credits. Before 1955, Yemen had little or no trade with the Soviet bloc. It now has trade agreements with the Soviet Union, East Germany, Czechoslovakia, Poland and Red China.

After reviewing several comparable situations, Mr. Dillon added: "In view of the importance attached by the USSR to this offensive in terms of its expected political reward, there is no reason to think that the Soviet Union or other bloc countries have come to the end of the road in pushing their credit and trade deals. Though additional commitments must be made by the USSR on a selective basis, the country is capable of incurring these, even in cases where they are economically burdensome, in order to shoot for greater political gains."

Latin-Americans Irked

It was not news to official Washington that during recent years there has been dissatisfaction in Latin America over rela-

U. S. Trade with 20 American Republics, by Country

[Millions of dollars]

COUNTRY	U.S. exports including re-exports 1956	1957	July-Dec. 1957 at annual rate	U.S. general imports 1956	1957	July-Dec. 1957 at annual rate
Total, including "special category" exports	3,863	4,673	4,809	3,639	3,768	3,673
Total, including "special category" exports[1]	3,768	4,553	4,692	......	......	......
Mexico	851	902	917	401	430	404
Central American Republics	317	344	337	216	230	184
Costa Rica	43	48	47	19	28	24
El Salvador	50	50	45	49	56	30
Guatemala	83	81	78	79	74	76
Honduras	39	42	40	30	26	15
Nicaragua	33	39	35	19	22	14
Panama, Republic of	69	84	91	20	24	25
Cuba	519	618	626	457	482	459
Dominican Republic	70	74	78	60	63	70
Haiti	37	24	26	15	18	22
Argentina	212	282	245	133	129	106
Bolivia	49	34	28	42	16	18
Brazil	309	482	503	746	700	700
Chile	158	195	184	237	196	178
Colombia	323	241	295	410	383	428
Ecuador	46	51	55	53	58	75
Paraguay	8	11	12	6	7	6
Peru	163	198	191	135	137	143
Uruguay	34	49	41	25	18	11
Venezuela	674	1,050	1,154	705	900	870

[1]—This area total and the country totals include exports of certain tractors, petroleum products, rubber products, and other commodities removed from security restrictions in 1957; they continue to exclude exports remaining in the "special category" classification throughout 1957.

tions with the United States. Some of it resulted from the Marshall Plan and it was intensified as the foreign economic policy of the United States continued to place overwhelming emphasis on Europe and Asia. The emphasis on other world areas never was properly explained. But while there was resentment in the countries to the south it appears to have been based largely on a feeling of being ignored or left out, as much, perhaps, as being deprived of assistance. There is a paradox here that needs to be explored.

In any discussion of international economic problems the term "economic aid" pops up as the symbol of large outlays of money by way of gifts, grants and handouts. Whatever form economic aid may take in other sections of the world, it cannot be applied in the context of handout to promote inter-American relations. Aid extended in this form and with that connotation would be a disservice to the continental regional system. The Latin Americans are not seeking aid in this sense of the term. What they are seeking, and what they feel they have a right to expect as members of the inter-American community, is adequate consideration of their problems and full participation in their solution in accordance with the principles adopted and facilities created under the regional organization.

Loans—and Investment Climate

Quite distinct from a reach for gifts or grants, the Latin Americans are interested in loans to promote their economic development. Capital for industrial development must come primarily from private sources, and the problem here is to develop a climate favorable to that type of investment.

To supplement and provide funds for projects that cannot be financed through private channels, the Latin Americans have advanced proposals for establishment of an inter-American Bank or a development fund. The United States has never warmed to the idea. Instead we have set up as a part of the International Cooperation Administration a development loan fund which undertakes to make loans strictly on a bilateral rather than the multilateral approach to international

Leading U. S. Exports to 20 American Republics

[Millions of dollars unless otherwise indicated]

COMMODITY	1956	1957	Percent of U.S. total 1957
Total exports[1]	3,836	4,637	24[2]
Machinery[3,4]	986	1,253	32
Industrial machinery[4]	578	781	31
Construction and mining equipment	232	325	37
Engines, turbines, and parts	56	74	32
Machine tools and metal working machinery[4]	32	48	15
Electrical machinery[4]	242	277	34
Tractors, parts and accessories	104	122	32
Agricultural machinery	32	35	26
Transportation equipment[4]	585	779	42
Automobiles, parts, accessories, & service equipment[4]	476	558	43
Motortrucks, buses, and chassis, new, nonmilitary	225	260	60
Passenger cars and chassis, new, nonmilitary	117	140	47
Railway transportation equipment	46	86	59
Civilian aircraft	29	70	26
Watercraft	32	61	54
Metals and manufactures	420	586	24
Iron and steel-mill products	224	342	25
Metal manufactures	154	200	39
Foodstuffs (including relief foods)	419	462	18
Grains and preparations	180	230	17
Wheat and flour	114	110	13
Fruits and vegetables	52	57	16
Dairy products	39	38	31
Lard	29	33	45
Chemicals and related products	402	445	32
Chemical specialties	132	140	28
Medicinal and pharmaceutical preparations	119	135	47
Industrial chemicals	56	59	27
Textile manufactured	174	175	26
Petroleum and products[4]	166	175	20
Paper and products	80	83	38
Rubber and manufactures[4]	55	62	21

1—Exports of U. S. merchandise. Total includes "special category" items, consisting of equipment and supplies which for security reasons are excluded from commodity data as noted.
2—Percentage based on U. S. total excluding military shipments.
3—Includes, in addition to items shown, office appliances and printing machinery.
4—Excludes "special category" items.

Leading U. S. Imports from 20 American Republics

[Millions of dollars unless otherwise indicated]

COMMODITY	1956	1957	Percent of U.S. total 1957
General imports	3,639	3,768	29
Imports for consumption	3,618	3,765	29
Foodstuffs	1,958	1,920	58
Coffee	1,302	1,207	88
Cane sugar	331	356	78
Bananas	68	70	100
Cocoa or cacao beans	67	69	51
Petroleum and products	664	837	54
Crude petroleum	479	584	59
Residual fuel oil	169	229	49
Metals and manufactures	599	604	26
Nonferrous metals and ferroalloys	483	446	27
Copper	282	207	59
Lead	64	64	41
Zinc ore	33	54	62
Manganese ore	20	45	45
Nickel oxide	18	32	71
Tungsten ore	30	19	54
Iron ore	108	152	54
Textile fibers and manufactures	140	127	13
Wool, unmanufactured	73	59	28
Vegetable oils and oilseeds, inedible	38	45	33
Tobacco and products	29	30	30

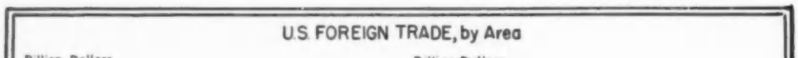
economic cooperation. In effect it is unilateral; the United States decides which countries will be brought into negotiations, fixes the terms and conditions.

Senator A. S. Monroney had this problem in clear focus when he introduced legislation to create an International Development Association that would be based on a joint participation by many countries in solving problems common to all.

"We need," said the eSnator, "a system of multilateral loans which can be made on a completely self-respecting basis. We must eliminate as quickly as possible the type of aid which, despite our honest intentions, has been the subject of communist propaganda which labels it not only as a charity program, but as Uncle Sam's efforts to subvert the recipient nations."

Collective Progress and Responsibility

Why a system which works elsewhere in the world is not suited for application to the republics to the south finds its answer in history, most of it recent. During the first three decades of this century the United States set itself up as the keeper of the peace in the Western Hemisphere. We undertook to impose our will by landing marines and naval forces. But under the pressure of Latin American public opinion we abandoned the idea of unilateral intervention and helped develop in its stead a system of collective responsibility—responsibility of all 21 states—for the peace and security of the Continent. A community, not precisely like the Common Market, has come into existence; it has promoted joint action. *Noteworthy in this connection is the fact that Senor Santamaria did not approach Secretary Dulles on behalf of Columbia alone, but for all the Latin American nations.*



Economic Frustration

To an extent that is sometimes diffifult to comprehend, the economic fate of Latin American countries is dependent on factors over which they have little or no control. Theirs is an export economy, revolving around two or three, and sometimes a single commodity. They enter the world markets on bases the importing countries fix. For years they have been seeking a degree of stabiilty in the marketing and in the prices of their basic commodities. During the past year their feeling of frustration has been aggrevated by measures which the United States has taken, or has under consideration, concerning such basic products as wool, copper, lead, zinc, and oil. Their feeling of neglect has been sharpened by our tendency to answer their pleas for sympathy and understanding, and help in solving their economic problems, with lectures on sound economics and free-market principles.

Difficulties from falling prices and declining world demand for nearly every Latin American commodity except cocoa and bananas have fed the fires of resentment.

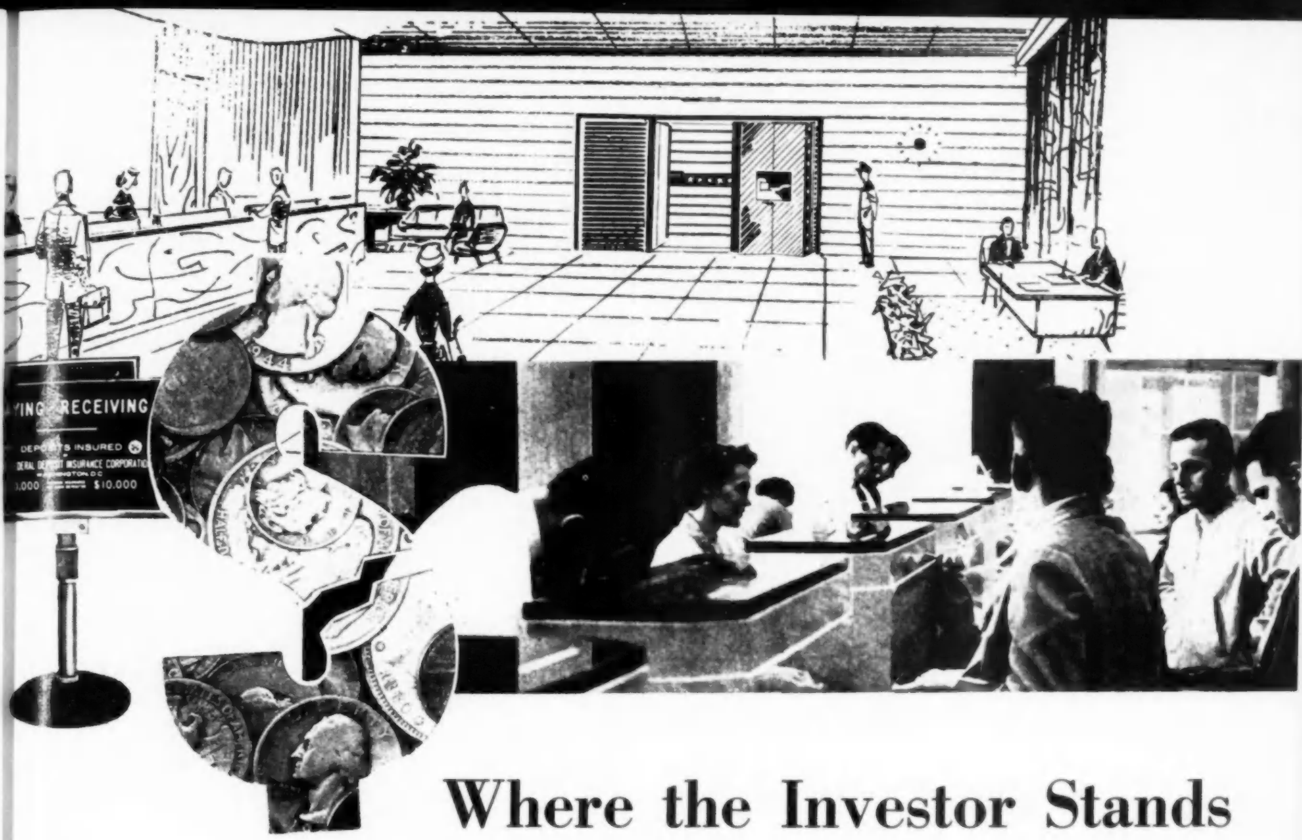
In the realm of economic relations, the United States recognizes its interdependence with Latin America. This springs from motives of security and trade. More than one-fifth of our exports now go to those countries, a business worth approximately $4.7 billion to the United States last year. On the other hand, almost 50 per cent of all Latin America's exports came to the United States and, moneywise, it approached a standoff at $3.8 billion. This is big business and make no mistake about the desire of both countries to maintain, and expand, it.

There has been a severe decline in prices in some of the goods sold to us by Latin America, notably in the non-ferrous metals although other commodities have also been affected. Coffee is their main concern; 15 of them produce it and six are dependent on the bean for most of their export trade and foreign exchange. Howeevr it makes no difference whether the affected product is coffee, copper, lead, zinc, tin, or something else: when prices drop sharply everybody in the producing countries is affected. But, the Latinos protest, the United States is slow to move in. Since the Trade Agreements Act was enacted it has been possible to negotiate reduction of government-made trade barriers, and to a degree negotiation has displaced retaliation.

Private Capital in Latin America

Of course the economic relationship is not based on trade alone. United States firms have been investing capital in Latin America on a constantly increasing scale. This kind of investment is helping to speed the development of the favored countries, just as European investments

(*Please turn to page* 443)



Where the Investor Stands In the Break-Up of Transamerica

By Harold B. Samuels

WHEN the Bank Holding Company Act of 1956 became law in May of that year, it effectively sealed the doom of Transamerica Corporation's existence in its then-current form. For whether by deliberate design (as has been charged), or by accident of history, Transamerica was particularly vulnerable under the Act.

Specifically, the law now requires that bank holding companies may not own more than 5 per cent of the voting stock of any company which is not a bank. Transamerica, therefore, which owns 100 per cent of the stock of Occidental Life Insurance Company, as well as various other insurance, real estate and industrial operations, was faced with the complicated problem of compliance. After careful deliberation, it was decided to split the company into two essentially component parts: one to retain control of the company's large and geographically diversified banking interests; the other to continue the operations of the non-banking subsidiaries under the aegis of one corporate entity.

In effect, the net result of the government's actions is to create two holding company giants where one existed before. For the newly formed Firstamerica Corporation, which will take control of the banking subsidiaries, will maintain sovereignty over an empire comprised of 23 banks in 11 western states commanding deposits of almost $3 billion; an amount exceeded by only four other banks in the country.

Transamerica, on the other hand, will retain control of the Occidental Life Insurance Company which today ranks 12th among the nation's 1200 legal reserve life companies, and 8th among those writing group policies, in addition to other insurance and industrial interests of the original company.

Thus one of the most colorful sagas in American banking and corporate enterprise comes to an end. Since 1928, when it was founded, Transamerica has been a prime mover in the industrial and financial development of the far west. Now that task falls to the Firstamerica Corporation. It will be interesting to see if Transamerica can go on to work the same kind of miracles in the insurance field that characterized its operations in banking.

The Two Companies

Stockholders of the old Transamerica will now hold equal shares in both new companies, and since the distribution of Firstamerica stock has been held non-taxable by the Internal Revenue Service, the shareholder is suffering no loss of asset value. Nevertheless, he is now faced with the problem of evaluating two separate securities, where he had only one before. Moreover, it is quite probable that eventually, methods of market evaluation of the component parts

will change, since criteria that formerly applied to the one entity need not apply to its component parts. For this reason, it will be of interest to break down both companies and compare them with others already in existence in their respective fields.

Firstamerica Corp.

As the simpler company, we shall consider the Firstamerica Corporation at the outset. Immediately following the reorganization the company will receive from Transamerica, $20 million in cash for working capital purposes, and a majority interest in 23 western banks with combined assets of $2.9 billion as of December 31, 1957. Twelve of the banks are state banks, eleven are national institutions, of which two rank independently among the nation's largest banks.

The First Western Bank and Trust Company, a state bank in California, has 97 branches; deposits of $897,474,657; and capital, surplus and undivided profits of almost $68 million. In size it ranks 23rd in the country. The other major bank is the First National Bank of Portland, which dates back to 1865 when it became the first chartered national bank on the west coast. Total deposits stood at $788,569,011 at year end; and capital, surplus and undivided profits topped $68 million. Its large deposits rank the company as 25th in the United States.

Throughout its entire system, Firstamerica's massive empire will contain 322 separate banking offices in 11 western states that are estimated to have double the population growth potential of the rest of the U.S. Several of the smaller banks were acquired in just the last two years and the return from these should be small at first since premiums were paid by Transamerica in order to establish a foothold in new areas. Nevertheless, earnings of the banking operation has been impressive in the last few years. Firstamerica taks title to an equity value of $180 million which has generated net income rising from $15.8 million in 1955 to $19.1 million in 1957. The portion of that net income applicable to the holding company rose from $9.1 million in 1955 to $13.5 million last year. Based on the 11,372,000 shares in Firstamerica, net income in 1957 equaled 74¢ per share, and equity in undistributed subsidiary profits came to 45¢ per share, for a combined earn-

Distribution of Assets

	Balance Sheet of Transamerica Corporation		Pro Forma Balance Sheets: Transamerica (reorganized)		Pro Forma Balance Sheets: Firstamerica	
ASSETS	Book Value	Equity Value	Book Value	Equity Value	Book Value	Equity Value
Investment in securities:						
Stocks of banking subsidiaries	$148,524,203	$160,245,375			$148,524,203	$160,245,375
Stocks of non-banking subsidiaries	50,363,233	157,495,264	$ 50,363,233	$157,495,264		
Other banks and corporate securities	10,066,526	14,527,875	10,066,526	14,527,875		
U. S. Treasury bonds	1,990,000	1,972,500	1,990,000	1,972,500		
Total Investments	$210,943,962	$334,241,014	$ 62,419,759	$173,995,639	$148,524,203	$160,245,375
Cash and U. S. Treasury bills	6,834,297	6,834,297	6,834,297	6,834,297		
Owing from subsidiaries	31,796,782	31,796,782	31,796,782	31,796,782		
Notes receivable and other assets	1,369,625	1,369,625	1,369,625	1,369,625		
	$250,944,666	$374,241,718	$102,420,463	$213,996,343		
Cash to be transferred from Transamerica to Firstamerica			(20,000,000)	(20,000,000)	20,000,000	20,000,000
Total Assets	$250,944,666	$374,241,718	$ 82,420,463	$193,996,343	$168,524,203	$180,245,375
LIABILITIES						
Income taxes, accounts payable and reserve for contingencies	$ 7,689,590	$ 7,689,590	$ 7,689,590	$ 7,689,590		
Net profit on inter-company sales of investments—deferred	2,285,820		2,285,820			
Total Liabilities	$ 9,975,410	$ 7,689,590	$ 9,975,410	$ 7,689,590	$	$
NET ASSETS	$240,969,256	$366,552,128	$ 72,445,053	$186,306,753	$168,524,203	$180,245,375
Per cent of net assets		100.00		50.82		49.18
CAPITAL						
Capital stock, $2 par value	$ 22,744,044	$ 22,744,044	$ 22,744,044	$ 22,744,044	$ 22,744,044	$ 22,744,044
Paid-in surplus	117,364,957	117,364,957			94,620,913	94,620,913
Earned surplus—allocated in proportion to equity value of net assets	100,860,255	100,860,255	51,261,317	51,261,317	49,598,938	49,598,938
Adjustment of earned surplus allocation			(1,560,308)	(1,560,308)	1,560,308	1,560,308
Excess of equity values over book values		125,582,872		113,861,700		11,721,172
	$240,969,256	$366,552,128	$ 72,445,053	$186,306,753	$168,524,203	$180,245,375
Net assets per share of capital stock, based on 11,372,022 shares outstanding for each corporation	$21.19	$32,23	$6.37	$16.38	$14,82	$15.85

THE BREAK-UP OF TRANSAMERICA

Firstamerica Corporation

Firstamerica Corporation was distributed to stockholders of Transamerica Corp., and holds the 23 banks formerly controlled by Transamerica. Location of the 322 offices of these banks is shown on the illustrated map.

The Banks Affiliated with Firstamerica

% held by Firstamerica	Name	State
72.97	First Western Bank and Trust Co.	California
58.13	First National Bank of Portland	Oregon
58.43	First National Bank of Arizona	Arizona
92.53	Southern Arizona Bank and Trust Co.	Arizona
92.72	First National Bank of Nevada	Nevada
73.03	Bank of Nevada	Nevada
90.55	Walker Bank and Trust Co.	Utah
52.69	National Bank of Washington	Washington
94.94	American National Bank of Denver	Colorado
95.78	Englewood State Bank	Colorado
90.08	First National Bank in Ft. Collins	Colorado
91.12	Bank of New Mexico	New Mexico
90.87	First State Bank at Gallup	New Mexico
66.38	Lea County State Bank	New Mexico
53.50	Roswell State Bank	New Mexico
76.61	Santa Fe National Bank	New Mexico
98.84	Bank of Idaho	Idaho
92.81	First National Bank of Casper	Wyoming
94.00	First National Bank of Laramie	Wyoming
92.45	First National Bank of Riverton	Wyoming
90.98	Montana Bank	Montana
89.35	Conrad National Bank of Kalispell	Montana
87.00	Bank of Glacier County	Montana

Transamerica Corporation

Subsidiaries retained by Transamerica Corporation after distribution of Firstamerica Corporation stock to shareholders:

Subsidiary	% held by Transamerica
Occidental Life Insurance Co. of California	100.00
Pacific National Fire Insurance Company[1]	100.00
Manufacturers Casualty Insurance Company[2]	99.80
Paramount Fire Insurance Company	92.54
Automotive Insurance Company	100.00
Allied Building Credits, Inc.	100.00
Capital Company	100.00
General Metals Corporation	94.43
Columbia River Packers Assn.	66.65

1—Owns 100% of the shares of Premier Insurance Co.
2—Owns 99.98% of the share of Manufacturers Fire Ins. Co.

ings total of $1.19. Comparable figures were $1.12 in 1956 and 85¢ in 1955.

Despite its fine record, however, Firstamerica must be viewed with investment caution. The intended 80¢ per share dividend is not covered as well as similar institutions cover their payments, yet the stock at $17 (on a when issued basis) is selling at a slightly higher price earnings ratio than comparable banks. For example, Firstamerica's P/E ratio is 14.1, the Bank of America sells at 13.5 times its earnings, while both companies are priced to yield 4.8 per cent. BOA's $2.81 per share earnings, however, provide somewhat better coverage for the dividend.

The enormous growth potential of the areas served speaks well for the company's future, yet the near term picture may have some ragged edges. Bank rates are slipping throughout the country, and although earnings assets are increasing, so is the cost of doing business. In sum, Firstamerica shapes up as an excellent company, but one without exciting short term prospects.

Transamerica

On the other hand, the newly constituted Transamerica Corporation offers more exciting prospects, if only for the diversity of its activities. Moreover, in its Occidental Life Insurance Company, TA has important participation in one of the most rapidly growing segments of American business.

To appreciate the true value of Occidental, it must be pointed out that the company was originally purchased by Transamerica for a little over $2 million, and is today carried on the books at its 1931 net asset value of $6.5 million. Yet in the latter part of 1957, Transamerica turned down a firm offer of $250 million for the life insurance company. Fortunately, this offer provides an excellent yardstick for appraising the entire Transamerica operation, and puts a concrete value on a vital segment that could otherwise only be guessed at.

Occidental writes life, accident and sickness insurance, both ordinary and (*Please turn to page* 440)

Inside Washington

By "VERITAS"

POLITICAL POTENCY is one of the proud claims of the AFL-CIO, operating through its Committee on Political Action. In fact credit is accepted for many election victories in which the labor issue or COPE participation are hard to discover. So it was surprising to find the union disagreeing with Senator William R. Knowland's statement to newsmen that "the drive by organized labor in some areas played quite a part" (in Knowland's loss to Pat Brown in the gubernatorial first-run in California.) The Senator was over-generous, the union said, adding: "It was self-inflicted defeat." But union dollars and effort are being directed toward confirming Knowland's analysis in November.

WASHINGTON SEES:

The situation in Lebanon presents an invitation to war-mongering that might have been willingly grasped in Washington in other days, pushing the Nation to another "brink" if not over the cliff, but the times and existing conditions are militating against United States full-scale involvement. The war scare is on a day-to-day basis, subject to rapid change. That makes each policy proclamation from the State Department hinge on many "if's."

Nearest point to active participation the United States reached was Secretary Dulles' press conference statement that this country would be "inclined" to answer a call for armed forces to bolster the UN observation team. But it took only 24 hours for Dulles to think that one over, re-assemble the press and explain his comment as "hypothetical"—a Washington term which separates a policy from a passing observation.

United States nationals have been advised to leave the troubled zones and the fleet stands by in the usual gesture of readiness. The Lebanese ask for more than a patrol; they want an army of at least 1500 men to protect the 150-mile mountainous border that separates them from Syria. Such a massing would require Security Council or General Assembly approval. For once, Russia's veto (which Moscow already has said would be spoken) could work on the side of noninvolvement by the United States.

SUBCONTRACTORS and firms anxious to share in guided missile parts production or assembly have been offered a new service by the Small Business Administration. A cumulative listing of names and addresses of companies making missile subsystems, components, assemblies, subassemblies and parts, has been prepared and will be posted at SBA's 53 field offices; based on data supplied by the military procurement offices, contractors and other sources. Operating only from its master list in Washington, SBA made 4,968 referrals this year, bringing small industries into business relationship with the larger companies in the field of missilry.

TAX RESOLUTION as proposed in the bill Senator Paul Douglas offered as a substitute for the Administration measure extending corporate and certain excise taxes was so palpably a political gesture that it is unlikely to serve the campaign purposes to which it seemed so clearly pointed. The notion of lopping $6 billion off the tax recepits without even the formality of committee hearing could hardly be defended as a serious effort. The same holds true for the proposed virtual scrapping of the excise tax system. Democrats were anxious to have a tax-cut measure they could support but few of them were ready to stultify themselves by backing this one.

MARSHAL TITO is providing an object lesson for students of communism, especially in the relationship of Moscow control over Red Governments above the satellite class. Yugoslavia has proved it can do business with the Kremlin and with the White House, with both simultaneously, unilaterally—or neither. But Tito's independence was not realized until the Moscow reds put him to the test. His latest moves have revived debate on the wisdom of cutting off trade with Red countries without provision for taking care of special situations where our own security and economy might well benefit.

As We Go To Press

▶ The nation's foreign trade program with all its diplomatic and security implications as well as the economic importance that attaches to it, has successfull survived a House test with indorsement that should propel it past Senate obstructions. But narrow-gauge thinking on the part of those whose vision does not extend beyond Congressional district lines posed a threat, sounded a warning. The House leadership, backing President Eisenhower's plea for a five-year extension of the reciprocal agreements act and authority to maneuver with shifting trade winds, trusted the "protectionists" too far. Result almost was disastrous.

▶ The harsh term "double-cross" is being bandied about Capitol Hill. Maybe it isn't too strong. Here are the facts that didn't come to the surface: The Administration bill was indorsed by the House Ways and Means Committee and sent to the Rules Committee for docketing. Meanwhile Rep. Richard M. Simpson of Pennsylvania, offered a measure which, he explained, contained only "technical" changes. On the basis of that assurance, the Rules Committee agreed that the Simpson Bill should be introduced into House debate as the only alternative to the White House proposition. But the technical change proved to be a rewrite of an earlier draft backed by the "protectionists." In application it would have made it virtually impossible to negotiate a reciprocal trade agreement.

▶ Congressman Simpson had given his name to the original alternative bill. His colleagues agree he was not fully advised of the sweeping effect of the changes later made. While the Pennsylvanian could produce proofs that damaging effects have flowed from the trade treaties into his district, he was at no time advocating the stricture on Presidential tariff-adjusting powers that showed up: the existing tariff liberalities could have been made into a sieve with exceptions based on "peril point" protection, national security exceptions, agricultural exemptions and others. The alternative bill would give the U.S. Tariff Commission almost complete authority to rule tariff changes out, confine others. The one test would be: Would a customs reduction injure domestic industry? Any part of it!

▶ In another area of foreign trade, Russia's proposal to increase its purchases here, using United Sates credit, is being carefully examined for gimmicks. Also for sincerity. The Soviet Embassy here has sought to place the term "credits" in a context different from that usually read into international dealings. Here, it is explained, the expression related to credits in the ordinary commercial sense, such as deferred payments based on specific contract terms. No gift.

▶ Approaching the Russian proposals from all sides (as well as top and bottom — as is the caution of experience), Treasury economists find it difficult to reconcile a USSR interest in United States credits in the light of the Kremlin's extension of $2 billion to underdeveloped countries. Also, Moscow took a dim view of Yugoslavia's acceptance of American aid and made it quite emphatic that Poland shouldn't enter into a similar deal. Then too there is the matter of $800 million still owed to us on the Russian lend-lease debt, a bookkeeping entry that reflects on the risk.

▶ Russia doesn't have much to offer the United States in the line of commodities for export to these shores. It could offer a market for specialized machinery. Perhaps the most important benefit would be a narrowing of one of the chasms that divide the two countries, especially since there is no suggestion on either side that the American ban on export of strategic goods to Moscow would be lifted. Of the many Red "offers" that have been made, trade resumption seems to be the one which affords least chance of quibbling over what was said, what was meant. And it might lead to negotiations on

other, more important, things, Even the more cautious in the State and Commerce Departments agree nothing can be solved by a policy of saying "No!" to every proposition. But they're wary.

Many reasons have been read into Senator Knowland's surprisingly bad showing in California but no one seems to disagree that the Senator's labor program was a principal factor in the primary defeat that seems to foreshadow sweeping democratic victory in November. Knowland's experience in state government was in the 30's, when he was a youthful assemblyman. For the past 14 years he has been immersed in public affairs as a United States Senator and the concentration has been intensified since he succeeded the late Robert A. Taft as GOP leader in the upper House. Since he moved onto the national scene, California has undergone rapid and somewhat revolutionary change. Under the spur of World War 2 needs, it has become an industrial state with vast operations in unionized aircraft industries. From a political standpoint, espousal of right-to-work was a bad choice.

Important election contests are ahead in several states normally regarded as having republican leanings, and in at least six of them right-to-work is an issue. They are: Washington, Idaho, Montana, Kansas, Colorado, and Ohio. Under the Taft-Hartley Act, employers in 18 states hire workers without regard to union membership but unions may legally demand that such workers join them within a fixed period, usually 30 days. Management associations are principal advocates of right-to-work legislation, the title of which rather well describes the purposes: to insure that any citizen will not be deprived of his job for refusal to join a union.

This is not an ideological debate. It goes to the roots of labor-management relationships and what was supposed to be a constitutional right of private contract. Backers in California contributed an estimated $350,000 to publicizing and promoting the "right" statute; AFL-CIO set out to obtain $1 apiece from each of its 1.6 million California adherents, earmarked to fight this aspect of the campaign. That suggests a minimum of $1.5 million and a possible mamimum of $3 million to settle the question, in a single state!

Petitions to the legislatures are being circulated in five states where the right to work is regarded a paramount issue and in a sixth, Kansas, there is a constitutional contest to decide whether it shall appear on the November ballot as a referendum. The fight is on the state legislature level at this point, but it may not stop there. There is no prospect of obtaining Congressional action to bar the union shop in the same way the closed shop was outlawed (no hiring except through union halls). But 18 states now have right-to-work laws. By the end of November the number is likely to be increased — despite the California experience. And it is gaining toward the level at which an amendment to the Constitution of the United States could be set in motion.

While economy seems to be a forgotten word in official Washington, there still remains opportunity for Congress to exercise thrift in a telling degree. Most of the budget already has cleared the House. One of the oddities is in the fact that more money was voted in these bills than was asked by the President and the Bureau of the Budget. As a matter of record, Defense Secretary Neil McElroy, after viewing the House version of the military bill proclaimed it too high and served notice he'd impound the overage. However, final action is yet to be taken on money bills aggregating $11 billion.

Rejection of new spending measures such as the community facilities program and Federal aid-to-education ideas could materially reduce spending below the levels which now threaten. The Senate passed a community facilities construction bill (S. 3497) authorizing $1 billion in loans for this purpose. The House committee reported a bill similar in nature but upped the lending to $2 billion. Bills providing Federal aid for scholarships, science education, school construction and the like are still in committee. Strong lobbies back all of them; several of them eventually will be reported out but that doesn't mean they will be enacted.

PART 1
1958 SPECIAL MID-YEAR DIVIDEND FORECAST

MERCHANDISERS

▶ **Companies making gains—those holding their own—or falling behind under new-techniques to maintain profits.**

By Ward Gates

IN THE last six months retail stocks have found increasing favor with investors because of belief in their defensive qualities. And not without reason. Consumer purchases of goods at retail vary little and slowly, compared to the abrupt changes in production and inventories, particularly of durable goods like steel, machinery, automobiles, and the like, purchases of which can be deferred for considerable periods.

The Federal Reserve Board index of industrial production fell from a high of 147 last August to a recent low of 126 in April. It was not until February 1958 that total retail sales fell below the level of the same month in the previous year. The total decline in sales of retail stores from August 1957 to the recent low in March was less than 6%. Moreover, most of the drop was in sales of durable goods stores which include automobile dealers although such dealers are not thought of by most people as conventionally engaged in "retail trade."

The Stability of Trade

The relative stability displayed by retail trade so far in the current recession is one of the strong points on which hopes of an early recovery are based. For, even though production may slow down even more than it has, if consumer purchasing continues at a good level, it will not be long before stocks on shelves are depleted to the point where re-ordering is necessary. With re-orders could come a speeding up of production which would start the economy on the upward spiral again.

The explanation of the way retail sales have been maintained seems to lie in the fact that consumers have an incurable disposition to buy goods to satisfy their needs and wants so long as they have the money to do so—and are not alarmed over the future. It is only when unemployment, shortened hours, and lowered wage rates cut down the amount of purchasing power they now have, and threaten what they may receive in the future, that there is sharp curtailment of purchases. Fortunately, that point does not seem to have been reached, or even approached as yet. Moreover, there is the likelihood that a decline in wages will also bring a decline in the price of consumer goods, in a period of readjustment.

In this recession, more than in any previous one, the impact of unemployment has been softened by unemployment payments from the state, supplementary unemployment benefits provided in some of the important union contracts, the increasing number of people eligible for social security payments who elect to rely on such payments when it becomes difficult for them to find work, and the confidence that the present period of slackening activity in business is hitting a plateau.

Statistics on Merchandising Stocks

	1st Quarter						Full Year						
	Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1956	Dividend Per Share 1957	Price Range 1957-58	Recent Price	Indicated Div. Yield
ALLIED STORES W.C. (mil.) '56—$148.7 W.C. (mil.) '57—$144.5	$133.0	$129.6	1.2%	(d).1%	$ .53	$(d).14	$5.05	$4.33	$3.00	$3.00	47⅞-35	44	6.8%
ASSO. DRY GOODS W.C. (mil.) '56—$54.5 W.C. (mil.) '57—$62.5	51.2	55.4	2.0	1.4	.56	.38	3.92	3.92	1.85	2.00	34¾-27⅜	33	6.0
BEST & CO. W.C. (mil.) '56—$10.6 W.C. (mil.) '57—$10.6	10.5	10.1	5.0	5.0	.88	.85	3.12	2.96	2.00	2.00	33¾-26	33	6.0
FED. DEP'T. STORES W.C. (mil.) '56—$122.5 W.C. (mil.) '57—$126.1	139.1	138.9	3.2	2.9	.58	.53	3.05	3.25	1.57	1.80[2]	40 -27⅞	39	4.6
GIMBEL BROS. W.C. (mil.) '56—$77.8 W.C. (mil.) '57—$82.9	81.9	83.8	1.3	.7	.52	.26	3.60	3.69	1.40	1.60	28¾-20⅝	28	5.7
GRANT, W. T. W.C. (mil.) '56—$60.6 W.C. (mil.) '57—$65.2	27.9	28.3	N.A.	N.A.	N.A.	N.A.	3.37	3.66	2.00	2.00	36⅞-27	36	5.5
GREEN, H. L. W.C. (mil.) '56—$19.6 W.C. (mil.) '57—$20.5	23.7	22.0	.9	.1	.19	.03	2.93	2.72	2.25	2.00[2]	30⅞-20⅝	26	7.6
KRESGE, S. S. W.C. (mil.) '56—$67.5 W.C. (mil.) '57—$63.8	68.9	70.3	N.A.	N.A.	N.A.	N.A.	2.60	2.62	1.60	1.60	29 -22	28	5.7
KRESS, S. H. W.C. (mil.) '56—$29.5 W.C. (mil.) '57—$24.3	31.9	28.6	N.A.	N.A.	N.A.	N.A.	3.48	3.00	2.50	2.00	34⅛-23½	33	6.0
LERNER STORES W.C. (mil.) '56—$21.0 W.C. (mil.) '57—$22.3	40.4	37.4	N.A.	N.A.	N.A.	N.A.	2.02	2.15	1.20	1.20	19 -14¼	17	7.0
MACY, R. H. W.C. (mil.) '56—$59.0 W.C. (mil.) '57—$70.7	349.5[1]	358.1[1]	1.8[1]	1.7[1]	3.32[1]	3.11[1]	3.06	3.44	1.80	2.00	34⅞-27	32	6.2

W.C.—Working Capital.
N.A.—Not available.
d—Deficit.

1—39 weeks ended May 3.
2—Indicated 1958 rate.

Allied Stores: Deficit suffered in first quarter by this second largest department store chain not expected to have an adverse effect on 1958 dividends. For detail see text. (B3)

Associated Dry Goods: Emphasizes acquisitions as well as building new stores in its expansion program. Seems to have reached a temporary plateau in earnings. Dividend appears safe. For detail see text. (B2)

Best & Co.: Earnings of this women's and children's specialty chain, characterized in recent years more by stability than growth, have been running slightly behind a year ago since the first quarter of 1957, but not enough to endanger the dividend. (B3)

Federated Department Stores: Largest department store chain recently raised its dividend and may lift earnings again this year. For detail see text. (A1)

Gimbel Brothers: Sharp decline in first quarter earnings dims hope of an early increase in dividend rate. For detail see text. (B3)

Grant (W. T.): Third largest variety chain has been widening lines. Earnings unchanged, as is also dividend prospect. For detail see text. (B2)

Green (H. L.): Year-end extra dividend omitted as declining trend of past decade persists. Gradually shifting to self-service. Another dividend cut a possibility, but probably not imminent. (C3)

Kresge (S. S.): Has second largest number of stores in variety chain field; is doing relatively well. For detail see text. (B2)

Kress (S. H.): Change in management may improve long-term prospects, but meantime dividend is not entirely safe. For detail see text. (B3)

Lerner Stores: Poor weather has held down sales and probably earnings of this women's wear chain in the first half of this year, after a better-than-average gain last year. Dividend continuance at present rate is indicated. (B2)

Macy (R. H.): Strikes and other difficulties have reduced earnings but not enough to threaten the dividend yet. For detail see text. (B3)

RATINGS:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistics on Merchandising Stocks (Continued)

	1st Quarter Net Sales 1957 (Millions)	1st Quarter Net Sales 1958 (Millions)	1st Quarter Net Profit Margin 1957 %	1st Quarter Net Profit Margin 1958 %	1st Quarter Net Per Share 1957	1st Quarter Net Per Share 1958	Full Year Earned Per Share 1956	Full Year Earned Per Share 1957	Full Year Dividend Per Share 1956	Full Year Dividend Per Share 1957	Price Range 1957-58	Recent Price	Indicated Div. Yield
MARSH. FIELD & CO. W.C. (mil.) '56—$63.3 W.C. (mil.) '57—$65.8	$ 47.2	$ 45.3	2.3%	1.8%	$ .47	$ .34	$3.54	$3.56	$2.25	$2.25	38 3/8-29 1/8	34	6.6%
MAY DEP'T. STORES W.C. (mil.) '56—$112.6 W.C. (mil.) '57—$116.0	111.6	110.4	2.4	N.A.	.40	N.A.	3.31	3.19	2.20	2.20	42 3/4-33 1/2	41	5.3
McCRORY STORES W.C. (mil.) '56—$15.4 W.C. (mil.) '57—$14.8	21.5	20.5	N.A.	N.A.	N.A.	N.A.	1.40	1.36	1.00	.80[1]	13 3/4-10 7/8	11 1/2	6.9
McLELLAN STORES W.C. (mil.) '56—$8.3 W.C. (mil.) '57—$8.1	10.8	10.7	N.A.	N.A.	N.A.	N.A.	1.72	1.56	1.60[2]	1.00[1]	19 7/8-12 1/4	14	7.1
MONTGOM. WARD W.C. (mil.) '56—$610.9 W.C. (mil.) '57—$587.6	213.0	218.7	1.9	1.3	.29	.19	2.65	2.21	2.62	2.25	40 1/4-27 1/4	27 1/4	8 2
MURPHY, G. C. W.C. (mil.) '56—$35.1 W.C. (mil.) '57—$36.4	37.6	36.1	N.A.	N.A.	N.A.	N.A.	4.10	4.11	2.12 1/2	2.12 1/2	39 3/4-30 1/4	37	5.7
NEISNER BROS. W.C. (mil.) '56—$11.0 W.C. (mil.) '57—$10.5	12.8	11.9	N.A.	N.A.	N.A.	N.A.	1.50	.79	1.00	1.00	14 1/8-10	11	9.0
NEWBERRY, J. J. W.C. (mil.) '56—$44.0 W.C. (mil.) '57—$43.4	37.0	38.3	N.A.	N.A.	N.A.	N.A.	3.18	2.75	2.00	2.00	33 3/4-25 3/8	33	6.0
PENNEY, J. C. W.C. (mil.) '56—$188.0 W.C. (mil.) '57—$200.8	232.2	232.9	N.A.	N.A.	N.A.	N.A.	5.68	6.00	4.25	4.25	95 1/2-82 1/2	94	4.5
SEARS ROEBUCK W.C. (mil.) '56—$743.6 W.C. (mil.) '57—$777.1	800.9	777.2	3.3	3.0	.36	.31	2.20	2.15	1.15[2]	1.10[1]	29 3/4-24 1/8	29	3.7
WOOLWORTH, F. W. W.C. (mil.) '56—$124.1 W.C. (mil.) '57—$136.0	159.8	163.6	N.A.	N.A.	N.A.	N.A.	3.57	3.44	2.50	2.50	47 -35 1/2	46	5.4

W.C.—Working Capital.
N.A.—Not available.

1—Indicated 1958 rate.
2—Plus stock.

Marshall Field: First quarter dip in net suggests that the upward trend of earnings in effect since 1951 may be reversed this year. Dividend presents no problem until time to decide next Spring on extra. Finances are strong and nearby capital needs moderate. (B3)

May Department Stores: Although earnings are currently slipping, the move is not enough to place the dividend in jeopardy. For detail see text. (B3)

McCrory Stores: New working control of this small chain by Bankers Securities Company has already reduced the quarterly dividend rate from 25 to 20 cents a share where it should hold for the time being. Plans to spend $2.5 million this year on new stores and improvement of existing units. (C3)

McLellan Stores: Volume is currently benefiting from improved conditions in farming and textile regions served by this chain. New Bankers Securities Company control plans to open 10 new stores and remodel others this year. Dividend recently reduced from 35 to 25 cents a share quarterly, and even new rate is none too well covered. (C3)

Murphy (G. C.): Two out of three of the stores of this fast growing chain now offer a modified form of self-service. Earnings have held up well and dividend coverage is wider than usual in this field. For detail see text. (B2)

Montgomery Ward: Reorganization measures taken by management not yet being reflected in earnings, which failed fully to cover dividends last year. This year's extra in doubt. For detail see text. (A3)

Neisner Bros.: Last year's earnings, the lowest in more than fifteen years, failed to cover dividend, and clearly foreshadow not only omission of the year-end extra in 1958, but also probably reduction in the quarterly rate. (B3)

Newberry (J. J.): Management is confident that its emphasis on larger stores and upgraded merchandise will eventually improve its profit record despite declines of last two years. Coverage of dividend is now narrowest in ten years since present rate was established and creates some uncertainty as to continuance. (B3)

Penney (J. C.): Effects of recession conditions on second largest general merchandise retailer not expected to be marked enough to affect dividends. For detail see text. (A2)

Sears, Roebuck: Possibility that 1958 earnings may drop back to 1954 level; that year-end extra, if any, may be in stock instead of cash. For detail see text. (A3)

Woolworth (F. W.): Part of gains foreseen by management of largest variety chain in first half of year may be offset in final six months, but no threat to dividend rate is involved. For detail see text. (A2)

RATINGS:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

The Outlook for Trade

The outlook for retail trade during the balance of the year, while it cannot be described as bright, is at least hopeful. A great deal, of course, depends on what happens in general business. Recently there have been several constructive developments, such as an increase in housing starts, a slight expansion in employment, and a rise in weekly earnings in manufacturing. Government expenditures, particularly for defense and public works, are on the increase and are expected to have a stimulating effect on business and employment. Although activity continues low in the automobile industry, the threat of a strike (which could have adverse effects on many parts of the economy) seems to be receding. There are moves in the direction of extending the period during which unemployed may receive payments. And in several lines men who are still working are receiving the automatic wage increases provided in union contracts for assumed increase in productivity, plus cost-of-living adjustments. All these developments tend to sustain disposable personal income (with which retail trade correlates) at a high level, despite continuing unemployment. The total decline in retail trade for the full year 1958 will probably be of moderate proportions.

Trends in Retailing

But retailing enterprises are affected not only by trends in the national economy, but also by trends in retailing habits and patterns. In the last ten years, for example, the department stores and variety stores which are the special subjects of this review, have suffered from the marked shift of population from cities to suburbs. Their costs have been substantially increased and are still increasing because of the rise of wage rates in the tight labor market that has prevailed in recent years, the extension of union influence, and minimum wage laws. Both department stores and variety chains have long made use of unskilled workers whose wages have had a proportionately large rise.

Department stores have encountered new competition from discount houses and cut-rate mass distributors on main highways. Variety stores have been subject to new competition from supermarkets moving into non-food lines and usually selecting some of the fast-moving items carried by variety stores.

Counter Measures

The two types of retailers have countered these developments in various ways and with varying degrees of success. Department stores have followed their customers to the suburbs by building branch stores in considerable numbers, usually in new shopping centers. Shopping at downtown stores has been made easier for suburbanites by the provision of parking facilities.

Some department stores have met discount house competition by abandoning "fair trade" and cutting their own prices. Variety stores have tried to replace some of the small item business taken by supermarkets by building larger stores with broader merchandise lines, including some at higher prices, thus increasing their competition with the department stores.

Both types of retailers have tried to control the rising wage costs by increasing application of the principle of self service. However, this seems to have been much more difficult in retailing general merchandise than in marketing foods, if one may judge by the limited extent to which self-service has been introduced. This is the more surprising, particularly as to variety stores, since they were the original exponents of the idea of self-service in the form of "open display."

The Profit Record

Because of the difficulties of making the changes and adjustments referred to, the profit record of the department stores and variety chains in the last ten years has not equaled that of industrial corporations. Standard and Poor's Corporation compiles composite earnings for ten department and apparel stores, seven variety chains, and 378 industrial corporations. The figures are made comparable by converting them into relatives, or percentages of the average for the years 1947 to 1949 as a base. Earnings of the department store group in 1957 were about 15% above those of the base period, but those of the seven variety chains were more than 20% below. These figures compare with a gain of 65% for American industry, insofar as it is properly represented by the 378 corporations for which data are available.

In the current year to date every department store or variety chain which has thus far published interim earnings has reported some decline. And the General Manager of the Controllers Congress of the National Retail Merchants Association said recently, in discussing the still rising costs of department store operation: "This trend, when viewed with the current sales outlook, signals still further drops in profit levels during 1958."

The investor who elects to place his funds in retailing stocks in the department and variety chain fields, then, should realize that if these fields are defensive, they are so chiefly from the short-term viewpoint. Retailing profits will probably be lower this year, although perhaps not as much lower as most other lines of business. Because the department and variety chain stocks do not sell high in relation to earnings, and because most of them offer generous yields, they may well prove less vulnerable in periods of general market weakness than industrial "growth" stocks with more long-term promise. But over a period of years, the forces operative in retailing seem likely to continue to make it difficult for department and variety chains to equal the profit gains of other segments of American business.

Comments on Companies

However, even in unpromising industries and lines of business, there are always some companies which, because of superior management, high yields, low prices for their stocks, or other favoring circumstances, prove rewarding to the investor. As a possible help in selecting such companies we give, in accompanying table and the paragraphs which follow, brief comments on significant aspects of some of the leading companies.

Allied Stores has pioneered in the development of "regional shopping (*Please turn to page* 444)

Procter and Gamble Colgate-Palmolive

— Leader and Runner-up in Soap, Detergents and Toiletries

By Marius Jalet

ON June 2, 1958, the Supreme Court reversed a lower court's dismissal of an antitrust suit against Procter & Gamble, Colgate-Palmolive Company, and Lever Bros., the triumvirate which dominates the soap, detergent, and toiletries business. The suit, originally filed in 1952 and dismissed by a District Court in 1956, charged the usual—that is, a plot to restrain competition and monopolize trade in that industry. These ponderous suits usually take years to settle, but are likely to have only limited effect on longer term investment values.

However, Procter & Gamble and Colgate-Palmolive are two of the best known names in the United States. Lever Bros. is the wholly-owned subsidiary of Unilever, N.V., the internationally-owned Dutch concern. Moreover the entire industry has been in the throes of one of the most unusual decades in its history. Now is a good time to pace off the dimensions of both companies and to cast up the investment appeal of each.

During the past decade the competitive operations set by Procter & Gamble, by all odds the leader in the industry as shown by Table 1, follow a four-fold pattern. These have been; first—the introduction of major new products; second—the large scale national and local advertising to promote domestic demand for these new products as well as older ones; third – the cultivation of foreign markets, and fourth—the acquisition of smaller companies. The competition has been intense, to say the least. There is no doubt whatever about who set the pace. Only Colgate-Palmolive and Lever Bros. have been able to stay with it.

The Synthetic Soap Drive . . . Sauve qui Peut . . .

The most remarkable development in the history of the soap industry has been the technological upheaval brought about by detergents. Originally used as special wetting agents by the textile industry, after the war a number of new type detergents (i.e. cleaning agents made from chemicals) were perfected which were suitable for use in commercial laundries and also household washing machines and dishwashers.

The leading soapers, and especially Procter & Gamble, were not asleep at the switch. Quite the contrary. They were operating the switch. The appeal of the new detergents to both commercial laundries and to housewives was so strong that they were soon serious competitors of conventional soaps. In 1948, for example, synthetic soaps already accounted for almost 14% of the total soap and detergent tonnage produced in the United States.

Now the drive was really on. Secured by good products and backed by the tremendously persua-

Income Data

	Total World-Wide Sales	Domestic Net Income	Foreign Net Income	Total Net Income	Net Profit Margin	Earnings Per Share	Div. Per Share
	(Millions)						
PROCTER & GAMBLE CO.*							
1957	$1,156.4	$56.4	$11.4	$67.8	5.8	$3.40	$1.85
1956	1,038.3	52.1	7.2	59.3	5.7	3.05	1.75
1955	965.8	46.4	8.0	54.4	5.6	2.96	1.75
1954	911.1	42.1	10.2	52.3	5.7	2.71	1.62
1953	850.3	33.1	8.9	42.0	4.9	2.18	1.30
1952	818.1	36.3	5.4	41.7	5.0	2.16	1.30
1951	860.7	42.7	8.5	51.2	5.9	2.66	1.50
1950	632.9	51.7	9.3	61.0	9.6	3.17	1.45
1949	696.7	16.6	7.0	23.6	3.3	1.48	1.33
1948	723.7	56.8	8.6	65.4	9.0	3.40	1.33
COLGATE-PALMOLIVE CO.							
1957	$ 506.9	$ 6.9	$12.9	$19.9	3.9%	$7.81	$3.25
1956	508.5	4.8	10.5	15.4	3.0	6.04	3.00
1955	468.5	8.9	8.1	17.0	3.6	6.74	3.00
1954	424.3	7.6	9.3	17.0	4.0	6.81	2.50[1]
1953	405.3	8.0	9.2	17.2	4.2	7.28	2.00[1]
1952	381.2	7.8	6.7	14.6	3.8	6.44	2.00[1]
1951	346.4	4.3	5.6	10.0	2.8	4.55	2.00[1]
1950	311.9	13.8	7.1	21.0	6.7	10.32	3.00
1949	290.9	9.2	3.2	12.4	4.2	6.02	3.00
1948	302.1	5.4	3.1	8.6	2.8	4.08	3.00

*Years ending June 30.

Balance Sheet Data

	Colgate-Palmolive Co. 12/31/57	Procter & Gamble Co. 6/30/1957
	(Millions)	
Long Term Debt (Stated Value)	$ 48.6	$113.5
Preferred Stock (Stated Value)	$ 12.5	$ 2.2
No. of Common Shares Outstanding (000)	2,499	19,868
Capitalization	$ 92.3	$155.5
Total Surplus	$143.3	$420.1
Cash and Marketable Securities	$ 64.6	$104.0
Inventories, Net	$ 70.5	$170.5
Receivables, Net	$ 60.6	$ 57.7
Current Assets	$195.8	$332.3
Current Liabilities	$ 70.9	$105.0
Net Working Capital	$124.9	$227.3
Current Ratio (C.A. to C.L.)	2.7	3.1
Net Property	$113.3	$305.9
Total Assets	$318.6	$688.2
Book Value Per Share	$ 69.88	$ 23.20
Recent Price of Common Stock	62	61
Price Earnings Ratio	7.9	17.9
Indicated Dividend for 1958	$ 3.25[2]	$ 2.00
Dividend Yield	5.2%	3.2%
No. of Stockholders	24,000	56,000

1—Plus 5% stock dividends.
2—Includes $0.25 year-end extra.

sive (and effective) national advertising at which the soap industry is a master, by 1953 the new detergents had garnered almost half the total soap and detergent volume of the country. In 1957 detergents accounted for 71% of the total, and for the first quarter of 1958 increased this to 72.2% of the market.

About the only part of the soap industry not now dominated by synthetic detergents is represented by the toilet-bar soap used for hands and face. This market may be harder to take, but to assume it might be invulnerable may be an error. All of the three majors have developed and are promoting toilet bars made of detergents. The situation has been summed up perfectly by Colgate-Palmolive which stated in its 1957 annual report, almost poignantly, "Of the soap products sold in 1938, only Palmolive and Cashmere Bouquet toilet soaps continue to have significant sales."

The emergence of synthetic soaps using chemicals as raw materials has not only been an important factor in the rising sales of Procter & Gamble but has also helped bring about one very salutary change in the earnings pattern of these companies. Turning to Table 1, it will be noted that in the period from 1948-52, earnings of both companies were subject to relatively wide year-to-year fluctuations. In certain years, as in 1951 for example, these seemed to have had little to do with trends in sales.

In that year sales of both companies increased materially, and profits of each dropped sharply. The reason was change in inventory values. At that time the soapers were carrying large inventories of animals fats (tallow) and various soap-making oils, a large part of them imported (coconut and palm).

Partly as a result of reduced inventories of unstable commodities and partly as the result of LIFO accounting, earnings of both companies since 1952 have been showing an increasing stability. This of course has added to their investment appeal.

Research

Although no new products as significant as detergents have been introduced in recent years, a variety of new tooth-paste, shampoo, shaving cream and other preparations have been developed. Research has been significant in these products and is playing a role of increasing importance in the industry. In addition to product research, investigation of market potentials and marketing techniques also is of major importance in offering new soap or toiletry products to the public, for such steps involve advertising, often on a huge scale.

The soap and toiletry companies have long been among the largest advertisers in the country. Their brand names are "household words" in every city,

town and hamlet, and that is just the way they want it to be, for their products are indeed household products. They use almost every advertising medium – and with all stops out. Their marketing techniques have even given rise to phrases now in common usage, such as "soap opera".

Advertising costs not only are the principal sales expense in the industry but also a major competitive weapon. Procter & Gamble is the second largest advertiser in the country, exceeded only by General Motors. Lever Bros. is fifth largest and Colgate-Palmolive is seventh. The leaders do not themselves report any totals or details of their advertising outlays. However, the advertising business in this country and the various trade authorities provide reliable and revealing data.

In the following Table 2 we show the advertising outlays of both Procter & Gamble and Colgate-Palmolive for seven leading media as compiled by Advertising Age.

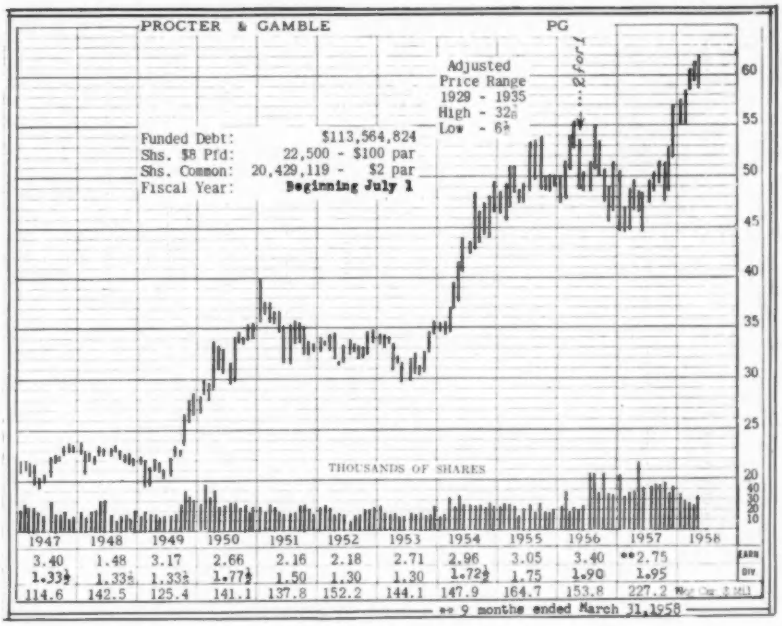


TABLE 2
ADVERTISING OUTLAYS — SEVEN MAJOR MEDIA*

	Procter & Gamble	Colgate-Palmolive
Network T.V.	$47,046,015	$19,375,713
Spot T.V.	25,916,840	7,739,080
Total T.V.	72,962,855	27,114,793
Newspapers	7,939,655	8,663,208
General Magazines	8,917,358	4,461,664
Business Publications	394,900	Nil
Farm Magazines	213,508	118,949
Outdoor	Nil	Nil
Total	$90,428,276	$40,558,614
% T.V. to total	80.7%	66.8%

*Radio Outlays not reported.

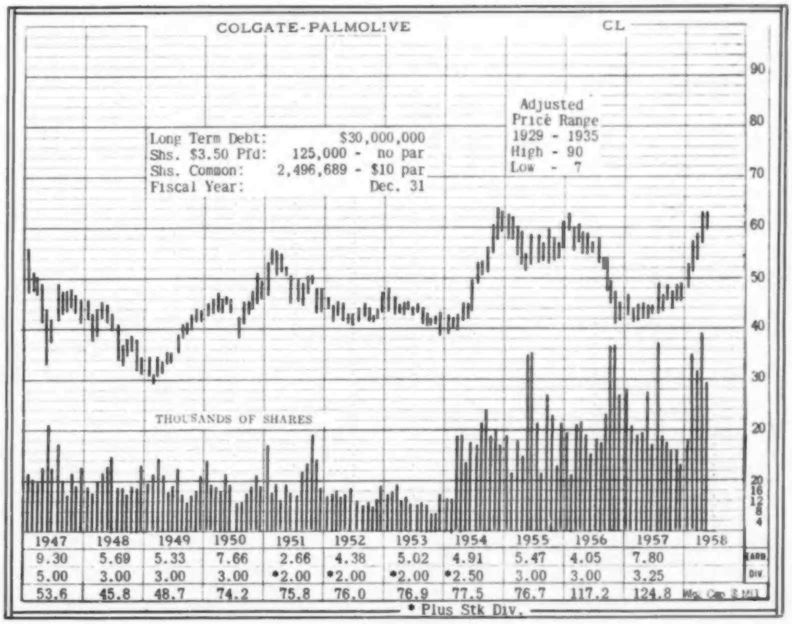
In 1957 Procter & Gamble's outlays over seven media totaled $90,428,276 and those of Colgate-Palmolive were $40,558,614. These were equal to $0.128 per dollar of sales reported by Procter & Gamble and $0.125 for Colgate-Palmolive. One should not infer any conclusions from a comparison of costs per dollar of sales from the foregoing, as Colgate-Palmolive's foreign sales are a larger portion of its sales than are those of Procter & Gamble, and advertising costs per dollar of sales are usually lower in overseas markets.

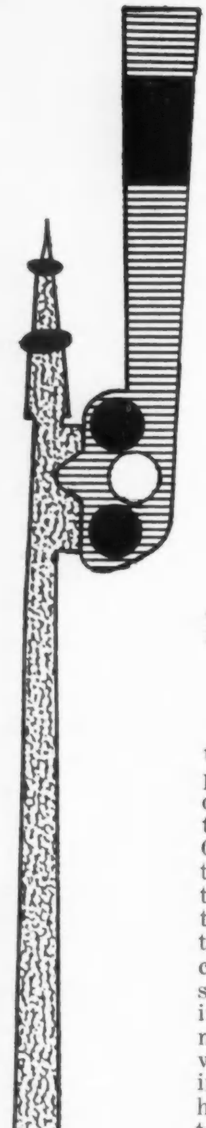
Relating these outlays to earnings, those of Procter & Gamble were equal to $4.42 a share as against estimated net of $3.50 a share for the year ended June 30, 1958 and current (*Please turn to page* 442)

The foregoing figures do not include outlays for radio time, point-of-display posters, etc., car-cards, or coupon advertising. Consequently, total advertising expenses were somewhat larger than shown by the Table.

It will be noted that television has become the chief selling mechanism of the soap and toiletries makers. Television itself, however, is still a relatively new and only partially understood selling medium. It can also be described as revolutionary. Consequently it is quite in order to observe that changes in soap and toiletry goods are being spurred by equally revolutionary changes in selling them.

When related solely to sales, advertising expenditures of the two leading companies do not appear too much out of line. However, when set against the net earnings reported and dividends paid to stockholders the results prove revealing, if not almost startling.





PART 2 — 1958 MID-YEAR DIVIDEND FORECAST

the INVESTOR and the RAILROADS TODAY

By Edgar T. Mead, Jr.

PASSENGER and freight traffic remains depressed on the nation's railways, and the effect has been and continues to be severe on revenues and earnings. To make matters worse, wages were increased on April 1 because of contractual agreements, and another increase will be incurred in November.

Cash Predicament

Against the unfavorable long term trend of traffic moved via rails compared with shipments moving or handled by other modes of transportation, the drop in revenues for the Class I Carriers was particularly discernible in the first 4 months of this year. During this interval, the FRB index of production was down 11% on the average from the similar months of 1957, yet railroad carloadings were off 20% and revenues slid by nearly 14%. With the FRB index in the area of 127-128 currently, shipments are still off from a year ago by wide margins. Owing to the accumulating wage increases, railroad expenses have become even more difficult to control, despite economies introduced by full dieselization, new yards and centralized signalling. As a result, net income during the first four months was down by a ponderous 80%. For the railroads handling steel and manufactured goods, this broad gauge decline spelled deficits—or at best small profits made possible only by drastic cuts in maintenance of roadway and rolling stock.

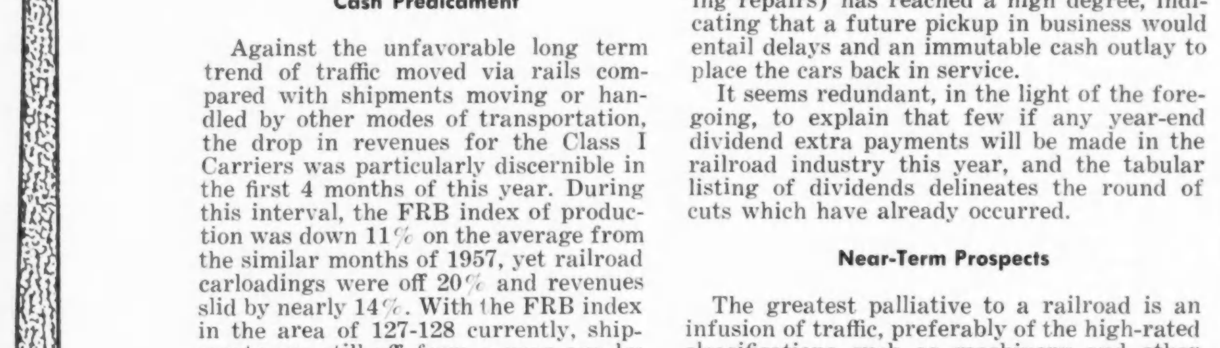
Concurrent with the diminution of revenues and net income, cash resources have taken a nosedive. As of April 30, 1958, the cash accounts on Class I Railways were reported 24% down from a year earlier. If it can be deemed any consolation, fewer locomotives and cars have been ordered or delivered, so that equipment debt has tended to scale downward. Meanwhile, the ratio of bad order cars (awaiting repairs) has reached a high degree, indicating that a future pickup in business would entail delays and an immutable cash outlay to place the cars back in service.

It seems redundant, in the light of the foregoing, to explain that few if any year-end dividend extra payments will be made in the railroad industry this year, and the tabular listing of dividends delineates the round of cuts which have already occurred.

Near-Term Prospects

The greatest palliative to a railroad is an infusion of traffic, preferably of the high-rated classifications such as machinery and other finished goods. In view of the continuing low level of industrial new orders for durable goods, the outlook suggests fluctuations of no more than modest proportions. This summer, the customary slowing down of production owing to vacations and otherwise normal factory shutdowns is to be expected, but the Federal Reserve Board's production index is adjusted for such changes and should remain steady at close to the 128 level.

The outlook for autumnal railroad traffic is perhaps moderately more encouraging, since



Statistical Position of Leading Railroads

	Gross Revenues 1st 4 Months 1957 (Millions)	Gross Revenues 1st 4 Months 1958 (Millions)	Percentage Change %	Operating Ratio Full Year 1957	Operating Ratio 1st 4 Months 1958	Net Per Share (*) Full Year 1957	Net Per Share (*) 1st 4 Months 1958	Indicated Div.	Recent Price	Div. Yield	Ratings
Atchison, Top. & Santa Fe	$196.6	$176.4	−10.2	77.6%	80.0%	$2.30	$0.44	$1.20	22	5.5%	A2
Atlantic Coast Line	59.5	52.1	−12.4	84.1	80.6	4.20	1.32	2.00	33	6.0	B2
Baltimore & Ohio	154.9	122.7	−20.7	80.9	81.7	8.53	0.58	1.00	31	3.2	C3
Chesapeake & Ohio	176.9[1]	138.2[1]	−21.9[1]	69.4	76.2[1]	8.36	1.84[1]	4.00	55	7.2	B2
Chi., Milw., St. P. & Pac.	80.5	73.7	− 8.4	82.0	87.2	2.51	(d)1.50	1.50	16	9.3	D3
Chicago & Northwestern	71.8	65.8	− 8.3	85.4	88.8	(d)6.14	(d)5.73	—	18	—	D3
Chi., Rock Island & Pac.	67.6	64.6	− 4.5	78.4	80.1	3.32	0.42	1.60	25	6.4	C2
Dela. Lack. & West.	29.1	24.8	−17.3	85.5	94.4	.26	(d)2.06	—	8½	—	C3
Denver & Rio Grande W.	27.2	22.5	−17.0	63.8	68.8	6.38	1.19	2.50	39	6.4	B2
Erie	57.6	48.4	−24.7	80.5	86.5	1.21	(d)1.46	—	8½	—	D3
Great Northern Ry.	104.6[1]	86.7[1]	−17.1[1]	77.1	87.5[1]	4.38	0.47[1]	3.00	35	8.5	B2
Gulf, Mobile & Ohio	28.3	26.2	− 7.3	79.1	82.0	2.28	(d)0.05	.40	16	2.5	C3
Illinois Central	121.8[1]	105.8[1]	−13.2[1]	78.8	82.4[1]	5.06	1.42[1]	2.00	33	6.0	B3
Kansas City Southern Sys.	15.7	14.8	− 6.0	57.9	58.3	9.29	1.78	4.00	66	6.0	B2
Lehigh Valley	22.5	18.4	−18.0	87.1	97.2	(d).79	(d)2.05	—	7½	—	D3
Louisville & Nashville	81.6	73.1	−10.4	83.2	87.0	7.63	1.18	5.00	64	7.8	B3
Missouri Pacific "A"	99.6	94.2	− 5.4	76.7	77.6	9.85	1.89	2.40	29	8.2	C2
New York Central	254.8	205.4	−19.3	84.6	91.0	1.30	(d)3.18	—	17	—	C3
N. Y. Chicago & St. Louis	57.8	44.6	−22.9	71.4	78.4	3.58	0.47	2.00	23	8.6	B2
N. Y., N. H. & Hart.	54.9	47.9	−12.7	82.5	88.5	(d)4.47	(d)4.52	—	7½	—	D3
Norfolk & Western	83.4	64.4	−22.8	68.2	78.4	7.75	1.33	3.60	64	5.6	A2
Northern Pacific	57.6	51.6	−10.4	82.8	89.1	4.25	0.38	2.00	40	5.0	B2
Pennsylvania	331.6	264.4	−20.2	85.0	91.5	1.45	(d)1.49	—	13½	—	C3
Reading	47.8	36.7	−23.2	80.0	88.1	5.36	(d)0.60	2.00	22	9.0	B2
St. Louis-San Francisco	42.9	38.4	−10.4	81.6	83.9	1.74	(d).10	—	15	—	D3
Seaboard Air Line	58.9	52.1	−11.4	75.3	78.5	3.85	1.03	2.00	27	7.4	B2
Southern Pacific Sys.	211.9	198.5	− 6.3	80.2	81.4	6.02	1.60	3.00	45	6.6	B2
Southern Railway	91.0	83.8	− 7.9	71.4	72.3	4.78	1.28	2.80	41	6.8	A2
Union Pacific	164.8	148.8	− 9.6	74.0	76.9	3.34	0.84	1.60	29	5.5	A2
Virginian Railway	22.0	16.6	−24.7	46.6	54.3	4.93	0.95	2.00	29	6.8	A2
Western Pacific	17.3	15.6	− 9.8	75.0	82.2	7.54	1.17	3.00	52	5.7	B2

(*)—Before funds.
(d)—Deficit.

[1]—5 months to May 31.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

improvements in certain areas of economic activity should produce a rise in carload volume. Defense expenditures are gradually gaining headway again, and it is expected that an additional $2.5 billion is to be injected into the program between now and mid-1959. Much of this accretion, of course, will be in aircraft and electronics, which do not depend particularly on rail transit; however, there are usually correlative benefits to rail volume. Industrial capital expenditures have been drastically reduced during the past twelve months, about 12-15% below the 1957 high water mark. A portion of this decline may be offset during the next several quarters by the resumption in purchasing of farm, automotive and special construction equipment. Inventories have been cut by about $5 billion thus far in 1958, and since the sale of goods has proceeded counter to the decrease in inventories, it seems likely that the consequent reduction of supplies should produce a rapid turnaround in production.

Export shipments have suffered by about $4 billion from the 1957 peak, and it is believed that an improved dollar credit position abroad and a resumption of the European industrial boom should catalyze a turnaround in export volume—which would be favorable for the railroads.

Residential housing seems to have passed a low point, which was estimated last Fall at an annual rate of 900,000 units per year. The subsequent outlook has been greatly brightened by easier money conditions, and private housing might reach the rate of 1.1-1.2 million units during the next twelve months—which would help the railroads' lumber and building supply volume. The rash of actual financings and announcements of plans for schools, highways and other public projects might add as much as 20% to the recent $13 billion rate during the next twelve months.

Railroad net income has become increasingly sensitive to economic forces, so that a 5-10% swing of traffic volume may posit the difference between profits or losses. This is a reflection in large part of increasing wage costs and of the difficulty of raising (or lowering) railroad "prices" for transportation. If inventories get closer into balance and the new order rate improves during the next few months, the railroad outlook would be materially improved. An FRB level of around 131-133 during the Fall months would undoubtedly mean profits for most railroads during that period, although such a rate of business activity would be somewhat below last year.

Legislation

Passage of the various transportation bills in Congress should be interpreted as helpful but by no means the cure to the numerous railroad ills. Parts of the Smathers bill passed by the Senate involve: (1) slightly more rate freedom, (2) a loan guaranty, (3) curtailment of certain agricultural exemptions, (4) creation of sharper definitions of certain traffic classifications and (5) sanctioning ICC jurisdiction over certain intrastate service. A similar bill is before the House of Representatives. On June 11, a Senate bill authorized $700 million to be set aside for emergency railroad loans.

Senate and House tax conferees have approved the repeal of the 3% Federal Excise on freight transportation to become effective, if approved by the President, on August 1st. A 4¢ per ton coal tax is also to disappear, although the 10% passenger excise remains. These amendments should be favorable for all common carriers.

Labor Unions

A switching crew on a certain railroad saw a small steam roller working on an asphalt paving strip at a passenger station platform. They claimed and won wages on the ground that the steam roller was a "train" because it was momentarily operating over the rails. This unique story is unfortunately typical of the rules, regulations and practices of labor union employment on the railroads, and since labor represents about half of operating expenses, the railroad labor situation is more critical than in other industries. A railroad crew often receives 200 miles of pay for 100 miles worked because of outmoded rules originated during steam engine days.

Modernization of these archaic practices has unfortunately moved at a snail's pace. A favorable step was the following of the steel pattern which granted a longer interval between contracts. An automobile settlement which would be more advantageous to mangement might consequently help during the next railroad bargaining period.

Overall Review

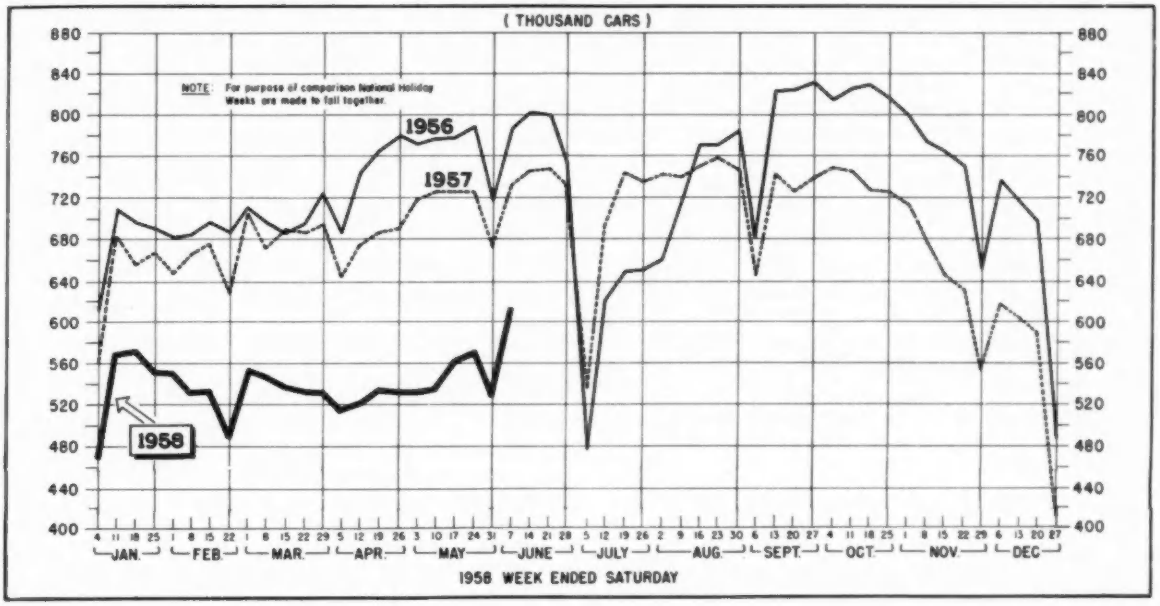
The railroads enjoying favorable operational conditions, such as long haul freight traffic, a minimum of switching and passenger service and absence of large, costly freight and passenger terminals have performed the least unsatisfactorily this year. Among these are Atchison, Atlantic Coast Line, Denver & Rio Grande Western, Kansas City Southern, Northern Pacific, Southern Pacific, Southern Railway, and Union Pacific, although all of these suffered large percentage declines in revenues and net income. Railroads with deficits during the first several months of 1958 include Chicago, Milwaukee, St. Paul & Pacific, Chicago & North Western, Delaware, Lackawana & Western, New York Central, Pennsylvania, Reading, St. Louis-San Francisco and smaller eastern carriers such as the Boston & Maine, Lehigh Valley and New Haven. In several cases, bond interest was not earned, and the poor cash position may weaken ability to meet full payments.

For the great majority of railroads, bond interest was earned with room to spare, and good income returns can be obtained from most medium-quality mortgage bonds. Bonds selling at discounts, such as Missouri Pacific, New York, Chicago & St. Louis and Southern Pacific seem attractive from the standpoint of income and attractive price relative to yield.

The "Transcontinental" Group

Atchison, Topeka & Santa Fe suffered a 10½% drop in revenues during the first four months, and net income fell by nearly 35% (from 66¢ per share to 44¢ per share). Passenger traffic declined by more than 13%, illustrating the contraction in personal travel, competition by highway and airline, and discontinuance of trains. In view of estimated earnings of around $1.80 or so this year vs. $2.30 last year, the $1.20 dividend seems secure, although there may not be an extra payment. This is a 5½% yield for investors seeking income.

CARS OF REVENUE FREIGHT LOADED WEEKLY



Chicago, Rock Island & Pacific has reported a disappointing earnings record during the past few years, but the better tone of grain shipments indicates that earnings this year should exceed $2.50 per share, which provides a fair coverage for the $1.60 dividend and a price/earnings multiple of about ten times. The stock is considered of lower medium grade but seems about as good as the average considering the 6½% yield and the prospect of a relatively better earnings performance this year.

Denver & Rio Grande Western experienced a revenue decline of about 18% during the first five months of 1958. A fair degree of control over expenses, without serious deterioration of maintenance expenditures, allowed less of an earnings decline than has been seen elsewhere in the industry. Earnings this year should adequately cover the $2.50 dividend. The near-6½% yield seems particularly attractive for income and price recovery later on.

Great Northern has felt the combined effects of lower lumber and ore shipments, along with the nationwide recessionary drain on manufactured and miscellaneous shipments. Earnings during the first quarter ran at a deficit, although this was turned to a profit by April. The company's best revenues and earnings are generally recorded later on in the year, so that full year earnings, estimated around $3.25 per share, should cover the dividend although with very little margin to spare. The road plans to eventually merge with the Burlington and the Northern Pacific, although in the case of merging railroads, the process seems to take years rather than weeks (as often happens in industrial mergers) owing to legislative, employment and financial complications.

Northern Pacific traffic has fallen off for reasons similar to the Great Northern, and earnings should improve during the latter half of the year. The stock sells about 11½ times estimated 1958 earnings and provides a yield of 5%, which is relatively attractive considering the company's equity in oil, minerals and forestry.

Southern Pacific represents an excellent participation in the expanding industrial economy of the Pacific Coast region. Revenues have remained relatively steady during 1958, and earnings should come within 20-25¢ of last year's $6.02 per share. The $3 dividend provides a very high yield (close to 7%) and the stock seems basically undervalued at current price levels.

Union Pacific oil and gas income may decline slightly in 1958, owing to burdensome petroleum inventories. The company is employing secondary recovery on the Wilmington field and is actively exploring and developing other areas for oil and minerals. Passenger revenues were down by 12½% thus far this year. Despite these adverse factors, the company typically enjoys good control over expenses and should manage to produce earnings of around $3 per share, about 10% below last year. In view of the uncertain outlook, the company might choose not to pay a dividend extra, but the $1.60 dividend payment seems assured.

Western Pacific revenues have diminished modestly owing to the drop in steel and manufacturing production, so that earnings have been reported below last year. The $3 dividend seems safe and indicates a 5.7% yield at current prices. The long term outlook for this small but significant western carrier seems rather bright, considering industrial growth and potential operating economies in prospect.

Southern-Southwestern Group

Atlantic Coast Line has not been immune to the generally lower trend of (*Please turn to page* 445)

★ ★ ★

3 Timely Speculative Opportunities in Strong Companies

▶ All have maintained a high earnings and dividend level—and are selling well below their highs

By Our Staff

As you will notice, each of the companies we have selected has shown improving earnings and increased coverage of dividends over the past several years. They also seem likely to be able to hold their own and make further gains over the longer term.

Beech Aircraft has been more than maintaining its earnings and is developing a promising commercial market. Mesta Machine will operate at capacity at least through 1958 on its present backlog of orders. Moreover the company is at work on a major steel mill in Italy and expects to build a rolling mill for a Japanese steel plant. Its finances are excellent and we believe current dividends will be at least maintained. Denver & Rio Grande Western's profits have been rising sharply in recent years, in fact were at record levels in 1957. Although 1958 earnings will be down somewhat, they have held up better than most railroads, and the carrier's longer term prospects are excellent.

Because each of these companies has strong management and finances, they can be considered desirable speculations under inflationary conditions in which holding the right stocks is likely to prove more rewarding than holding cash. The three equities we have chosen now offer good, and we believe, secure yields and are available at prices well under their highs of the past two years. Although each of them has felt or will feel the current recession to a limited extent, what is more important investment-wise is that they have handled themselves well under trying conditions and appear able to cope with adverse developments successfully – and continue to move ahead.

BEECH AIRCRAFT

BUSINESS: Beech Aircraft is the leading producer of single-engine and twin-engine airplanes for military and civilian use. The latter business accounted for 35% of its 1957 volume and has been growing. Military sales accounted for 65% of last year's volume and consisted of jet training planes for the U.S. and foreign governments, target drones, liaison planes, disposable fuel tanks and mobile ground-support units. Other activities include subcontract work and numerous classified projects.

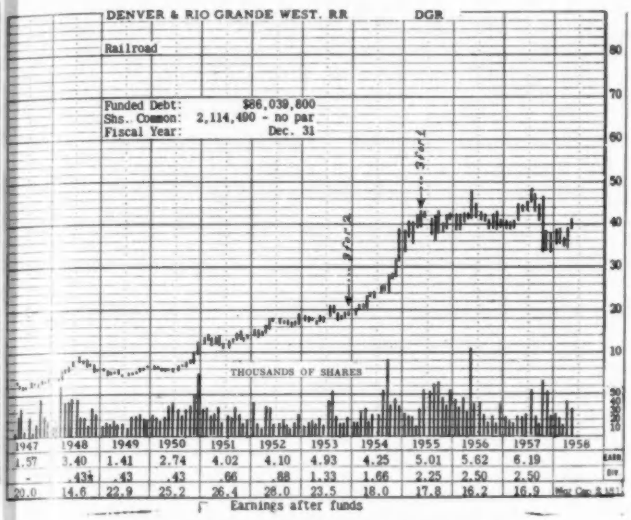
OUTLOOK: Earnings for the past four years have shown excellent stability, consistently topping four dollars a share as indicated by the table above. Moreover, earnings for the six months ended March 31, 1958 were $1.98 a share, up from $1.93 for the comparable year earlier. Since combined military and commercial backlogs on March 31, 1958, totalled $85,000,000, prospects are that earnings for the fiscal year ending September 30, 1958 will at least equal the $4.09 a share reported for fiscal 1957. However, the lean profit margins which characterize military orders together with reduced development and start-up costs on new projects indicate that profit margins for the current year will improve. Although backlogs of military orders have declined, developments in the current tense world situation may reverse the trend. Meanwhile, increased deliveries of the company's Travel Air and other commercial airplanes are expected to improve over-all profit margins.

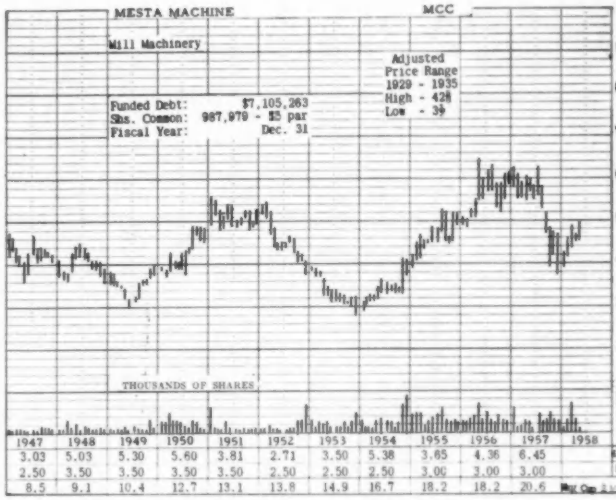
DIVIDENDS: The present regular dividend of $1.20 annually is being covered by a wide margin. The Company's net working capital reserves have almost tripled in the past four years, and it has recently received a net tax refund of $3,315,585.00. Better finances are permitting a more liberal dividend policy. In addition to an extra dividend of 10% in stock paid in February, 1957, the company has recently declared an extra cash dividend of 30¢, augmenting its regular 30¢ quarterly dividend.

MARKET ACTION: At its current price of 26½ the stock is down substantially from its 1957-58 high of 31¼. It is currently selling at about 6.7 times its estimated earnings for 1958 and about 6.5 times its estimated average earnings for the five years ending September 30, 1958. The issue yields over 5.7% on the basis of current regular dividends plus the $0.30 extra. In view of the current price-earnings ratio, its earnings prospects, and the current return, the issue has much merit.

COMPARATIVE BALANCE SHEET ITEMS

	September 30 1948	March 31 1958	Change
	(000 omitted)		
ASSETS			
Cash & Marketable Securities	$ 5,199	$ 3,080	—$ 2,119
Receivables, Net	855	14,233	+ 13,378
Inventories (Net)	5,783	21,762	+ 15,979
Other Current Assets	328	275	— 053
TOTAL CURRENT ASSETS	12,165	39,350	+ 27,185
Net Property	1,932	3,530	+ 1,588
Intangibles	067	007	— 060
Other Assets	064		— 064
TOTAL ASSETS	$ 14,228	$ 42,887	+$ 28,659
LIABILITIES			
Notes Payable, Banks	$	$ 12,500	+$ 12,500
Accounts Payable	656	2,347	+ 1,691
Accruals	1,661	3,364	+ 1,703
Income Tax Reserve	2,323	2,639	+ 316
Other Current Liabilities	1,222	2,839	+ 1,617
TOTAL CURRENT LIABILITIES	5,862	23,689	+ 17,827
Common Stock	400	823	+ 423
Deferred Income		410	+ 410
Surplus	7,966	17,965	+ 9,999
TOTAL LIABILITIES	$ 14,228	$ 42,887	+$ 28,659
WORKING CAPITAL	$ 6,303	$ 15,661	+$ 9,358
CURRENT RATIO	2.1	1.6	— .5





DENVER & RIO GRANDE WESTERN RAILROAD

BUSINESS: The "Rio Grande" represents the middle link in an important transcontinental route from Chicago to the Pacific Coast. The bridge-line nature of its traffic gives the road the advantages of a relatively long haul and expeditious freight handling, resulting in minimum transportation costs. Its low operating ratio and efficiency facilitates a close control of costs. Its properties are in excellent condition. These factors will enable the road to obtain full advantage of increased traffic resulting from improvement in general business and further growth of the area served.

OUTLOOK: The road operates 2155 miles of line, connecting with the Missouri Pacific, Burlington & Rock Island at Denver and Pueblo, Colorado in the east, and with Western Pacific and Southern Pacific at Ogden and Salt Lake City, Utah in the west. Completion of the Dotsero Cut-Off in 1934 established the road as the middle link in a short transcontinental route. The traffic includes manufactured products, metals, soft coal, forest and agricultural products. The bridge-line business of the road is of major importance, representing 35% of total tonnage. The long-term trend of revenues has been well above the average, reflecting growth in freight movement between the Middle West and the Pacific Coast. This, together with economical operation and able management, has resulted in rapid expansion of earning power in post war years. The road has benefitted particularly from industrial development in the Salt Lake City area.

DIVIDENDS: The financial position of the road is strong, capitalization consists of $86 million in funded debt and 2,084,990 shares of common stock. Periodic purchases of its own shares by the road have tended to increase per share earnings. In recent years, earnings amounted to $5.01 per share in 1955, $5.62 in 1956, and $6.19 in 1957. With a moderate improvement in general business in the second half, earnings should increase over restricted first half. Thus, the $2.50 per share annual dividend may be viewed as secure.

MARKET ACTION: At the current price of about 40, the stock is selling considerably below its 1957-58 high of 48¼. The current price is 6.5 times 1957 earnings and conservatively appraised on current earnings and longer term prospects. The yield, on the well-protected dividend, amounts to the generous figure of 6.25%.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31 1948 (000 omitted)	1957	Change
Road, Equip. & Prop.	$188,255	$230,900	+$ 42,645
Accr. Deprec. & Amort.	(CR)51,078	(CR)60,773	+ 9,695
Invest. & Spec. Funds	10,757	6,182	— 4,575
Other Assets	10,328	553	— 9,775
Cash & Marketable Secur.	21,871	27,922	+ 6,051
Receivables, Net	7,196	9,532	+ 2,236
Materials & Supplies	8,246	3,925	— 4,321
Other Curr. Assets	738	181	— 557
TOTAL CURRENT ASSETS	38,051	41,560	+ 3,509
TOTAL ASSETS	$196,313	$218,422	+$ 22,109
LIABILITIES			
Preferred Stock	$ 32,531	$ —	—$ 32,531
Common Stock	35,168	69,400	+ 34,232
Long Term Debt	86,755	86,040	— 715
Surplus	15,740	41,327	+ 25,587
Other Liabilities	393	594	+ 201
Unadjusted Credits	2,286	323	— 1,963
TOTAL CURRENT LIABILITIES	23,440	20,738	— 2,702
TOTAL LIABILITIES	$196,313	$218,422	+$ 22,109
WORKING CAPITAL	$ 14,611	$ 20,822	+$ 6,211
CURRENT RATIO	1.6	2.0	+ .4

MESTA MACHINE

BUSINESS: Mesta Machine is the leading producer of the massive capital equipment used to finish steel and other metals. Its principal products are the rolls and rolling-stands used in continuous rolling mills. Other products include large hydraulic presses, cut and moulded driving gear, and special heavy forgings. Its purchase of the Government owned foundry at New Castle, Pa., in 1956 has added to its capacity and earning power. The domestic steel business is its principal customer, but its export business is also important.

OUTLOOK: despite record deliveries and earnings of $6.45 a share in 1957, Mesta's backlog as of January 1, 1958 was $76 million, down only nominally from $79.3 million a year earlier. The company has officially stated that operations will be at capacity at least through 1958. Consequently, earnings for the current year should also be in the neighborhood of $6.00-6.50 a share. Although there has a been a slowing down of capital outlays by some steel companies, U.S. Steel's recent announcement that it will borrow $300 million to aid in financing capital expenditures has improved the situation. Moreover, what seems likely to be another favorable factor is the outlook for the company's export business. Mesta does not reveal any breakdown of its overseas business, but this is known to be substantial and on occasion has equaled one fourth or more of total billings. Mesta International is already at work on a mill in Italy, expects to receive an order from Japan, and others are in prospect. In view of expansion of foreign steel industries, Mesta's foreign trade outlook is the best in many years.

DIVIDENDS: The company's dividend record is exceptional. It has paid a dividend every year since 1914. The regular dividend of $2.50 is being covered by a wide margin and appears quite secure. A year-end extra of $1.00 was paid on January 2, 1958. The company's finances are excellent. A 1958 year-end extra may be paid, although it is not likely to be as large as the $1.00 paid last January.

MARKET ACTION: At its current price of 47 the equity is well below its 1957-58 high of 64¼. On the basis of its regular $2.50 dividend the issue yields 5.3%, and should the year-end extra for 1958 equal last year's, the return would be over 7%. The stock sells at about 7.2 its estimated 1958 earnings.

COMPARATIVE BALANCE SHEET ITEMS

ASSETS	December 31 1948 (000 omitted)	1957	Change
Cash & Marketable Secur.	$ 7,254	$ 8,300	+$ 1,046
Receivables, Net	7,485	14,204	+ 6,719
Inventories	19,550	41,547	+ 21,997
Billings, Uncomp. Contracts	(CR)18,014	(CR)34,413	+ 16,399
TOTAL CURRENT ASSETS	16,275	29,638	+ 13,363
Net Property	8,817	17,891	+ 9,074
Investments	241	241	—
Other Assets	569	166	— 403
TOTAL ASSETS	$ 25,903	$ 47,936	+$ 22,033
LIABILITIES			
Curr. Debt Maturity	$ —	$ 395	+$ 395
Accounts Pay. & Accru.	2,747	7,889	+ 5,142
Fed. Income Taxes	3,196	3,881	+ 685
U. S. Gov. Secur.	—	(DR)3,881	+ 3,881
Other Curr. Liab.	1,229	707	— 522
TOTAL CURRENT LIABILITIES	7,172	8,991	+ 1,819
Common Stock	5,000	5,000	—
Long Term Debt	—	7,105	+ 7,105
Surplus	13,731	26,840	+ 13,109
TOTAL LIABILITIES	$ 25,903	$ 47,936	+$ 22,033
WORKING CAPITAL	$ 9,103	$ 20,647	+$ 11,544
CURRENT RATIO	2.3	3.3	+ 1.0

FOR PROFIT AND INCOME

Imagination

Giving qualms to experienced, conservative investors and to responsible professional advisers, there are periods in the market when imagination and optimism pay off better, at least temporarily, than conventional stock analysis; when two birds in the bush seem to be worth much more than one in hand; when inflation possibilities and growth potentials are discounted years ahead. Periods when merger rumors can double the price of a stock which has no current earning power and which had been trending downward for years, as with Congoleum-Nairn; when the stock of a relatively new growth company (Polaroid) can soar to a level over 35 times earnings, with dividend yield negligible; when insiders can take some profits on the belief that their stock (National Lead) is too high, only to be whipsawed by investment trust buying; when the stock of an established growth company (International Business Machines) sells around 40 times earnings on a cash dividend yield of 0.7%; when a stock whose future is largely guesswork (Chrysler) can suddenly come to life after being disliked or distrusted for a long period; when a large short interest is thought to be a really bullish factor; when people have a naive and seemingly unlimited faith in what mutual-fund managers can do with their money by diversification and dollar-averaging mostly in prominent stocks which are generally more dear than cheap on earnings and dividends. It is still true that "money does not grow on trees." Those who forget that hard fact will be disappointed sooner or later.

July Markets

Whether the "traditional" summer rise—usually figured from the May closing level to the July or August high—will come through this year and to what extent is anybody's guess. Unless the market is in process of going crazy, it would appear that much of the summer potential was borrowed in April, May and June. In terms of net monthly change in the industrial average, July has the second best long-term record, with varying gains in 42 years, declines in 19. For August the score is 39 ups, 21 downs (with one year out because of the Au-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
First National Stores	Year Mar. 29	$5.37	$4.91
Dayton Power & Light	Quar. Mar. 31	1.27	1.11
Deere & Co.	Quar. Apr. 30	1.69	1.47
General Instrument Corp.	Year Feb. 28	.74	.37
Cuneo Press, Inc.	Quar. Apr. 30	.35	.27
Kayser (Julius) & Co.	9 mos. Mar. 31	.64	.57
American Stores Co.	Year Mar. 29	5.97	5.53
Virginia Elec. & Power	12 mos. Apr. 30	1.59	1.46
Addressograph-Multigraph	9 mos. Apr. 30	6.99	6.40
Minute Maid Corp.	6 mos. May 4	.81	.05

gust-November closing of the Exchange in 1914 after the start of World War I). December has the best record, with some net gain in 43 years, some decline in 18. Since bull markets have a much longer average duration than bear markets, the arithmetic odds should be about two to one against decline at any "statistically-average" time, regardless of seasonal influences. However, you have a recent reminder that banking on the odds and the record can be risky. Last December the Dow industrials had a net decline of 14.19 points.

Coppers

Copper stocks rallied further on news that the Government will buy up to 150,000 tons of domestic copper for stockpiling in what will start as a one-year program, paying market prices up to a ceiling of 27½ cents a pound. This was a political deal which served to smooth the Congressional road for five-year extension of the reciprocal trade program. It makes no economic sense. At this time the domestic price has risen to 26½ cents, which compares with the inflated peak of 46 cents a pound reached in 1946. Copper mining capacity is excessive, and the industry's basic need is for largely increased consumption of the metal. However, with no new boom in industrial activity likely at least before the early 1960's, domestic output will have to be kept restricted, if the metal is to get above the maximum stockpiling price and stay there. For reference, the average U. S. price last year was about 30 cents a pound—on which basis Phelps Dodge, for example, earned $4.25 a share (after depletion), against a record $8.58 in 1956. Assuming that within the next 12 to 24 months the company might get back to 1957 earnings, the stock, now at 48, is selling at over ten times that theoretical per-share figure. Copper stocks normally sell at a below-average valuation of actual earnings when they are fairly good and at a low ratio to boom earnings. The Phelps Dodge ratio averaged well under ten times earnings during much of the postwar period; and the record for other issues in the group is similar. We would have more long-term confidence in leading copper stocks if the Government kept its hands off and let needed supply-demand-price adjustments work themselves out.

Air Lines

In the first five months of this year, revenue passenger-miles flown by the domestic air transport companies were only 1.8% above the year-ago level, whereas the full-year gain was 13.2% in 1956. For May alone the figure was 2.6% below a year ago. Thus, for the first time in many years, growth of volume has been interrupted. That is blamed on business recession, the adverse effects of winter and spring weather on north-south vacation business, and recent plane collisions resulting in the deaths of 52 persons. Meanwhile, the industry's costs, including depreciation, continue to point upward; the interim fare boost obtained last February, averaging about 6.6%, has proved to be a drop in the bucket, as we figured at the time; and earnings remain poor. Aside from debt-financing costs on jet transports, the integration of them into service, starting not so very far ahead, will involve heavy special costs. Air transport is still classed as a long-term growth industry. Probably it is in traffic volume; but whether the combination of volume, costs and regulated fares will permit adequate earnings—much less real growth of earnings—is doubtful. To expect it to do so is to expect something new in the long history of hauling passengers by any means of transport. In the case of ships, railroads and buses, the story is well known. Can it be significantly different in the long run for air lines? We continue to hold these speculative stocks in relatively low esteem.

Stock Groups

Up to this writing, recent day-to-day divergences in the stock groups have been of limited significance, mostly reflecting variations for better or worse in technical positions. The wider divergencies based on fundamentals show up clearly over longer time periods. Thus, while the industrial and rail lists have had partial recoveries since last October and December, respectively, the following groups have recorded 1958 highs exceeding prior major tops established variously in 1955, 1956 or 1957: baking, confectionery, drugs, electric utilities, finance companies, corn refiners, dairy products, food brands, food stores, natural gas and tobaccos. They have in common well-maintained or improved earnings and dividends; and most are income-stock groups responsive to money-rate factors as reflected in prevailing bond yields. Whether their individual bull markets will continue, and to what extent, are necessarily conjectural. Where earnings have gained strongly—as, for example, in drugs, corn refining, food stores and tobaccos – the stocks are pretty well "up there." Depending on Federal Reserve credit policy, bond yields could hold near present levels over the medium term or dip slightly further, with broad change either way ruled out. Our opinion is that the groups cited have had much more rise within the last eight months or so than can be expected within the next twelve months.

Others

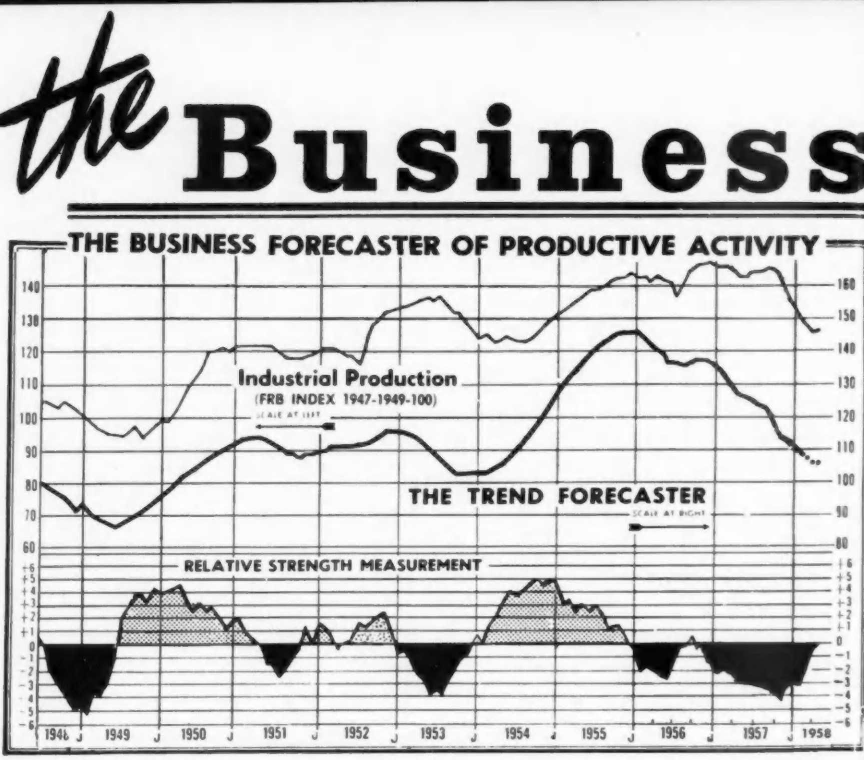
Stock groups which remain relatively far under major tops made variously in 1955, 1956 or 1957 include: aircraft, air lines, aluminum, automobiles, chemicals, coal, machinery, metal fabricating, non-ferrous metals, paper, radio-television, railroads, railroad equipments, sulphur and

(*Please turn to page* 446)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Green (H. L.) Co.	Quar. April 30	$ .03	$ .19
Chain Belt Co.	6 mos. April 30	2.22	3.23
Miami Copper Co.	Quar. Mar. 31	.06	1.09
Creole Petroleum Corp.	Quar. Mar. 31	1.11	1.40
Montgomery Ward & Co.	Quar. April 30	.19	.29
Royal McBee Corp.	9 mos. April 30	.22	2.53
Smith (A. O.) Corp.	Quar. April 30	.83	1.61
McKesson & Robbins	Quar. Mar. 31	1.24	1.66
Anaconda Co.	Quar. Mar. 31	.59	1.74
Raybestos-Manhattan	Quar. Mar. 31	.44	1.45

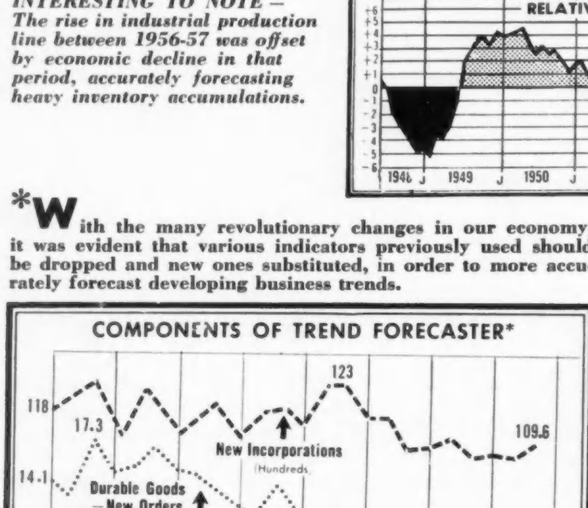
the Business



Business Trend Forecaster *

INTERESTING TO NOTE – The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F. W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the second quarter, the eight indicators entering into the **Trend Forecaster** have behaved substantially better than in the first quarter. The latest data show six of the series rising on a month-to-month basis, and four of the eight in a longer-term uptrend. In May, gains were recorded in new incorporations, stock prices, raw industrial commodity prices, average hours worked, business failures (inverted) and housing starts.

By late in the second quarter, the **Relative Strength Measure** had recovered sharply from its trough of late 1957, and was evidently near the zero mark. If the rate of improvement continues into the June figures, the **Relative Strength Measure** will have moved into positive ground, and will be forecasting some advances in general business later in 1958. The probabilities associated with such an advance are now better than 50-50. However, it should be added that the character and duration of the advance, should it occur, are still far from clear. Magaizne of Wall Street analysts foresee for late 1958 only a sluggish recovery, at best, in consumer durables, and continuing decline in capital goods; the odds thus favor only a moderate recovery.

Analyst

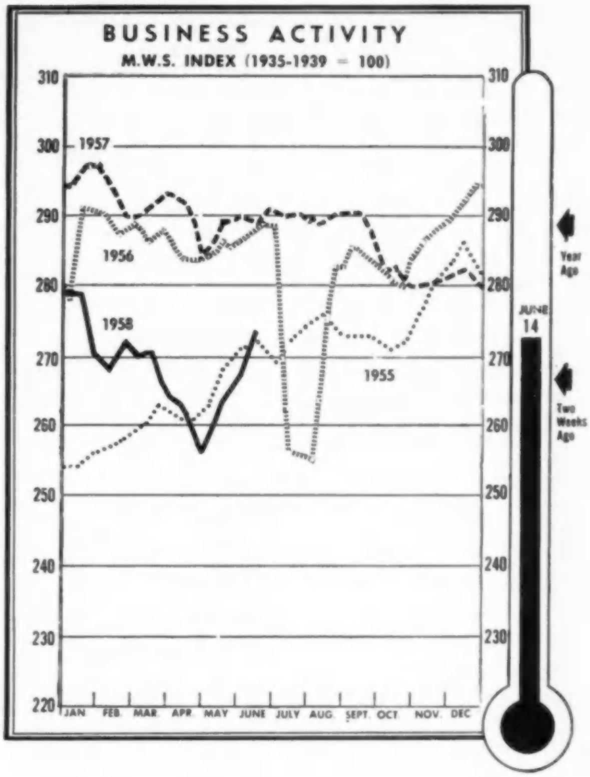
CONCLUSIONS IN BRIEF

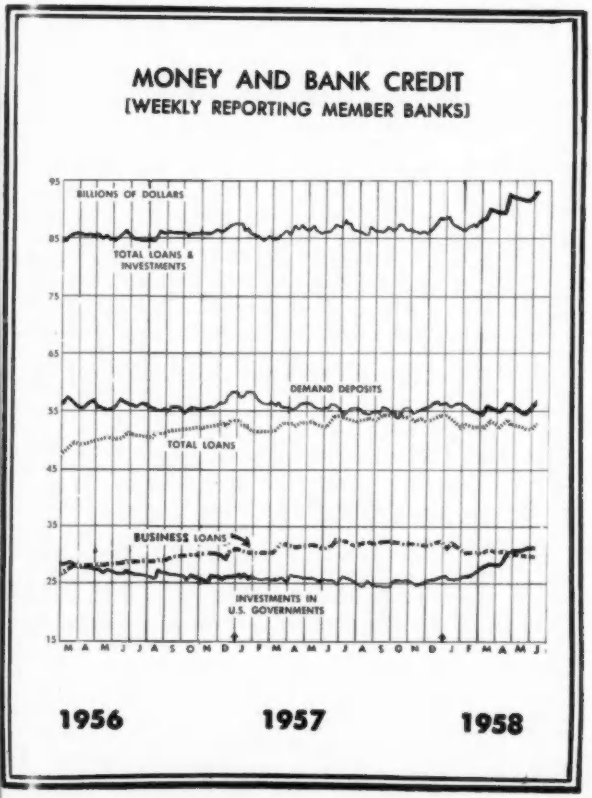
PRODUCTION—rose somewhat in May and June, and is likely to hold about stable (apart from seasonal influences) in the third quarter. Steel and auto outlook poor for July-September, but rising toward year-end.

TRADE—Retail volume firm, but not rising. Dollar figures for retail sales have been inflated by rising food prices, which are now about to reverse into decline. For other store groups, prospects are neutral into the Fall, then somewhat firmer.

MONEY AND CREDIT—Rumors of tightening of Federal Reserve policy notwithstanding, money is still easing slowly. Interest rates to continue soft throughout the third quarter, and perhaps through the remainder of this year.

COMMODITIES—Conflicting trends, as agricultural spot prices begin to weaken, some industrial raw materials strengthen (owing partly to government purchasing programs). Manufactured goods prices still in slow decline, continuing into the Fall.





IT IS beginning to be a prevailing opinion among experienced analysts that the third quarter of this year will see stable production combined with gradually strengthening demand, and that in the fourth quarter a general business recovery will get under way. The major sources of the recovery are expected to come from a boost in demand stemming from the end of inventory liquidation, rising government expenditures for defense and non-defense programs, and a climbing rate of housing starts. Conspicuous by their absence in this list of strengths are consumer durables and capital goods. For consumer durables, there is serious doubt that the automobile market in 1959 will perform notably better than in 1958, and that fourth quarter production will mark any surge of recovery here. For capital goods the evidence is reasonably clear that actual deliveries of plant and equipment will still be declining by late in the year, and that the ordering rate will be no better than stable.

In these circumstances, one is inclined to look for a recovery of something less than normal proportions. This view is now held by a surprisingly broad range of private and government agencies. In general, the impression is that the Federal Reserve's index of industrial production is not likely to exceed 135 in early 1959, and that the gross national product is not likely to be above the $430-435 billion level. The recovery will thus fall well short of levels of activity reached several years earlier. The question then becomes, what form of government stimulation should be expected, in the face of an unemployment figure in the neighborhood of five million?

This is a long and hazardous look at the future. It makes the point, however, that the expected recovery of late 1958

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	127	126	144
Durable Goods Mfr.	1947-'9-100	May	134	132	160
Nondurable Goods Mfr.	1947-'9-100	May	125	125	131
Mining	1947-'9-100	May	110	109	130
RETAIL SALES*	$ Billions	May	16.5	16.5	16.6
Durable Goods	$ Billions	May	5.2	5.8	5.8
Nondurable Goods	$ Billions	May	11.3	11.3	10.9
Dep't Store Sales	1947-'9-100	May	133	131	135
MANUFACTURERS'					
New Orders—Total*	$ Billions	Apr.	24.2	24.8	27.9
Durable Goods	$ Billions	Apr.	10.6	11.5	13.2
Nondurable Goods	$ Billions	Apr.	13.5	13.3	14.7
Shipments*	$ Billions	Apr.	24.8	24.9	28.7
Durable Goods	$ Billions	Apr.	11.5	11.7	14.3
Nondurable Goods	$ Billions	Apr.	13.3	13.3	14.4
BUSINESS INVENTORIES, END MO.*	$ Billions	Apr.	87.7	88.5	90.1
Manufacturers'	$ Billions	Apr.	51.5	52.0	53.7
Wholesalers'	$ Billions	Apr.	12.2	12.4	12.8
Retailers'	$ Billions	Apr.	23.9	24.1	23.7
Dept. Store Stocks	1947-'9-100	Apr.	143	143	152
CONSTRUCTION TOTAL	$ Billions	May	4.1	3.7	4.1
Private	$ Billions	May	2.8	2.6	2.9
Residential	$ Billions	May	1.4	1.3	1.4
All Other	$ Billions	May	1.4	1.3	1.5
Housing Starts*—a	Thousands	May	1,010	950	994
Contract Awards, Residential—b	$ Millions	May	1,346	1,240	1,297
All Other—b	$ Millions	May	2,056	1,644	2,103
EMPLOYMENT					
Total Civilian	Millions	May	64.1	62.9	65.2
Non-Farm	Millions	May	50.5	50.2	52.5
Government	Millions	May	7.6	7.6	7.4
Trade	Millions	May	11.3	11.3	11.4
Factory	Millions	May	11.3	11.3	12.9
Hours Worked	Hours	May	38.5	38.3	39.7
Hourly Earnings	Dollars	May	2.11	2.11	2.06
Weekly Earnings	Dollars	May	81.24	80.81	81.78
PERSONAL INCOME*	$ Billions	May	344	343	343
Wages & Salaries	$ Billions	May	234	233	238
Proprietors' Incomes	$ Billions	May	52	52	51
Interest & Dividends	$ Billions	May	32	32	31
Transfer Payments	$ Billions	May	26	26	22
Farm Income	$ Billions	May	17	17	16
CONSUMER PRICES	1947-'9-100	May	123.6	123.5	119.0
Food	1947-'9-100	May	121.6	121.6	114.6
Clothing	1947-'9-100	May	106.7	106.7	106.5
Housing	1947-'9-100	May	127.8	127.7	125.3
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Apr.	107.2	106.4	107.3
Bank Debits*—g	$ Billions	Apr.	81.7	76.4	82.7
Business Loans Outstanding—c	$ Billions	Apr.	30.2	31.0	31.5
Instalment Credit Extended*	$ Billions	Apr.	3.3	3.2	3.5
Instalment Credit Repaid*	$ Billions	Apr.	3.4	3.4	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	May	4.9	3.5	5.3
Budget Expenditures	$ Billions	May	5.8	6.1	5.9
Defense Expenditures	$ Billions	May	3.6	3.6	3.9
Surplus (Def) cum from 7/1	$ Billions	May	(7.0)	(6.0)	(3.8)

PRESENT POSITION AND OUTLOOK

is not necessarily a general bonanza; that markets — particularly the consumer durables and capital goods markets—are likely to remain intensely competitive and profit margins unhappily small. **Those industries likely to benefit most are those that have been hardest hit by inventory liquidation—in general, the raw materials industries serving the durables manufacturing sector, and the defense industries.**

* * *

GROSS NATIONAL PRODUCT—In the second quarter, it has apparently averaged very close to the first-quarter rate, perhaps a trifle higher. Gains have been recorded in consumer spending for soft goods and services; in federal government outlays; and i.. spending of state and local governments. In addition, inventory liquidation proceeded at a slightly lower rate in the second quarter than in the first quarter. On the down side: both residential and nonresidential construction; consumer durables; producer durables; and net exports of goods and services. **Altogether, a picture of emerging stability, with firm consumer spending and rising government spending offsetting further weakness in business spending.**

* * *

PERSONAL INCOME—Strength here underlies the stability in personal spending. Income rates began advancing in March, continued up in April, and rose a little further in May. In the latter month, even industrial payrolls turned slightly upward, owing to mild improvement in construction employment. Look for a further big advance in total personal income in the June figure, when it is reported. The gain will reflect sizeable wage increases for government workers, especially in the payrolls of postal workers.

* * *

INVENTORY-SALES RATIOS—They have finally stopped rising, and are now beginning to decline. Characteristically in the earlier and middle stages of recession, the ratios rise, as sales fall faster than inventory. Now, sales rates have begun to firm, even to creep up a little, and the ratios are being deflated. Inventory liquidation still has several months to run, however, as finished goods stocks continue heavy.

* * *

HOUSING — Here's the big turnaround, gradually shaping up in the figures on

UP-8 D-22 N-13

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 I Quarter	1957 IV Quarter	1957 III Quarter	1957 I Quarter
GROSS NATIONAL PRODUCT	422.0	432.6	440.0	429.9
Personal Consumption	281.2	282.4	283.6	276.7
Private Domestic Invest.	51.8	61.3	66.5	63.6
Net Foreign Investment	1.5	2.0	3.2	4.1
Government Purchases	87.5	87.0	86.7	85.6
Federal	49.5	49.7	50.6	50.3
State & Local	38.0	37.3	36.1	35.3
PERSONAL INCOME	342.5	345.5	346.9	338.3
Tax & Nontax Payments	42.4	43.4	43.6	42.2
Disposable Income	300.1	302.1	303.3	296.1
Consumption Expenditures	281.2	282.4	283.6	276.7
Personal Saving—d	18.9	19.8	19.7	19.5
CORPORATE PRE-TAX PROFITS		37.5	41.8	43.9
Corporate Taxes		19.1	21.3	22.4
Corporate Net Profit		18.3	20.4	21.5
Dividend Payments		11.7	12.6	12.4
Retained Earnings			7.8	9.1
PLANT & EQUIPMENT OUTLAYS	32.4	36.2	37.8	36.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 14	273.3	270.2	289.2
MWS Index—per capita*	1935-'9-100	June 14	204.6	202.2	220.8
Steel Production	% of Capacity	June 29	62.4	64.9	84.0
Auto and Truck Production	Thousands	June 21	108	106	151
Paperboard Production	Thousand Tons	June 14	291	249	287
Paperboard New Orders	Thousand Tons	June 14	271	305	255
Electric Power Output*	1947-'49-100	June 14	232.1	228.4	231.3
Freight Carloadings	Thousand Cars	June 14	622	613	746
Engineering Constr. Awards	$ Millions	June 19	430	506	371
Department Store Sales	1947-'9-100	June 14	138	135	139
Demand Deposits—c	$ Billions	June 11	57.1	55.7	56.4
Business Failures	Number	June 12	254	325	265

PRESENT POSITION AND OUTLOOK

starts, on VA and FHA appraisal requests. Without question, the new terms of these agencies are inspiring builders to put up new homes. The unresolved question is whether buyers will take them off the builders' hands. And on this question there is still no good evidence. As late as April, the rate of new mortgage recordings by buyers looked small relative to the building rate, and doubtless the number of vacancies has been rising. The higher building rate will be providing some stamina for the business trend in late 1958; but it will take the buyer to validate the demand in 1959.

* * *

THE PRICE LEVEL—It's still level, but it shows a little tendency to sag. As of May, the general wholesale price index published by the Bureau of Labor Statistics was still firm, but thanks mainly to rising farm prices. Over the next several months, farm prices will probably be drifting down, owing to swelling crops. At the same time, the industrial price level is still falling slightly. The combined downtrend in both farm and nonfarm prices will evidently bring the index to a 1959 low during the early summer. By the same token, the consumer price level is probably at or past its 1958 peak now; by late in the year, it is likely to be 1%-2% below its current level.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 Range High	1958 Range Low	1958 June 13	1958 June 20
300 Combined Average	330.4	283.9	330.4	328.7
4 Agricultural Implements	263.8	196.5	261.9	256.5
3 Air Cond. ('53 Cl.—100)	106.8	87.8	105.0	105.0
9 Aircraft ('27 Cl.—100)	1139.4	982.2	1119.7	1109.9
7 Airlines ('27 Cl.—100)	774.9	638.8	774.9	745.3
4 Aluminum ('53 Cl.—100)	309.1	253.4	288.9	286.3
6 Amusements	159.5	125.0	159.5	152.3
8 Automobile Accessories	324.6	298.9	321.7	324.6H
6 Automobiles	50.7	40.8	50.3	50.3
4 Baking ('26 Cl.—100)	34.6	28.5	34.3	34.3
4 Business Machines	1053.7	898.2	1036.4	1053.7H
6 Chemicals	550.6	509.5	550.6	545.5
5 Coal Mining	21.9	18.4	21.4	21.2
4 Communications	104.2	85.7	104.2	104.2
9 Construction	122.1	107.5	120.1	121.1
7 Containers	913.3	707.3	913.3	892.7
7 Copper Mining	224.8	184.6	224.8	219.4
2 Dairy Products	134.0	115.6	132.8	131.7
6 Department Stores	93.9	78.9	91.6	91.6
5 Drugs-Eth. ('53 Cl.—100)	282.7	217.2	273.3	282.7H
6 Elec. Eqp. ('53 Cl.—100)	207.2	195.8	205.3	205.3
2 Finance Companies	669.1	568.8	669.1	663.5
6 Food Brands	320.6	255.5	315.6	320.6H
3 Food Stores	224.1	182.2	224.1	224.1

(Nov. 14, 1936 Cl.—100)	1958 Range High	1958 Range Low	1958 June 13	1958 June 20
100 High Priced Stocks	216.8	189.7	216.8	215.9
100 Low Priced Stocks	404.1	334.7	404.1	402.2
5 Gold Mining	772.5	530.5	741.6	741.6
4 Investment Trusts	160.9	144.4	159.5	158.1
3 Liquor ('27 Cl.—100)	1083.6	913.4	1083.6	1056.7
8 Machinery	374.7	343.8	367.9	364.4
3 Mail Order	192.0	143.3	192.0	192.0
4 Meat Packing	152.4	123.6	147.9	152.4
5 Metal Fabr. ('53 Cl.—100)	161.1	138.1	142.2	140.8
9 Metals, Miscellaneous	307.8	276.3	305.2	307.8H
4 Paper	959.7	841.8	959.7	951.2
22 Petroleum	758.3	629.7	758.3	751.8
21 Public Utilities	299.9	258.9	299.9	299.9
7 Railroad Equipment	69.0	59.2	69.0	69.0
20 Railroads	52.5	43.0	52.5	52.1
3 Soft Drinks	541.8	445.6	541.8	541.8
12 Steel & Iron	280.4	249.3	278.1	275.7
4 Sugar	123.5	102.8	122.5	123.5
2 Sulphur	699.4	543.4	694.0	699.4H
10 Television ('27 Cl.—100)	36.4	28.8	36.4	36.4
5 Textiles	123.6	106.9	123.6	120.7
3 Tires & Rubber	160.9	142.3	152.3	151.6
5 Tobacco	142.8	110.9	142.8	141.8
2 Variety Stores	289.7	239.3	287.5	289.7H
17 Unclassif'd ('49 Cl.—100)	171.5	145.4	171.5	170.7

H—New High for 1958.

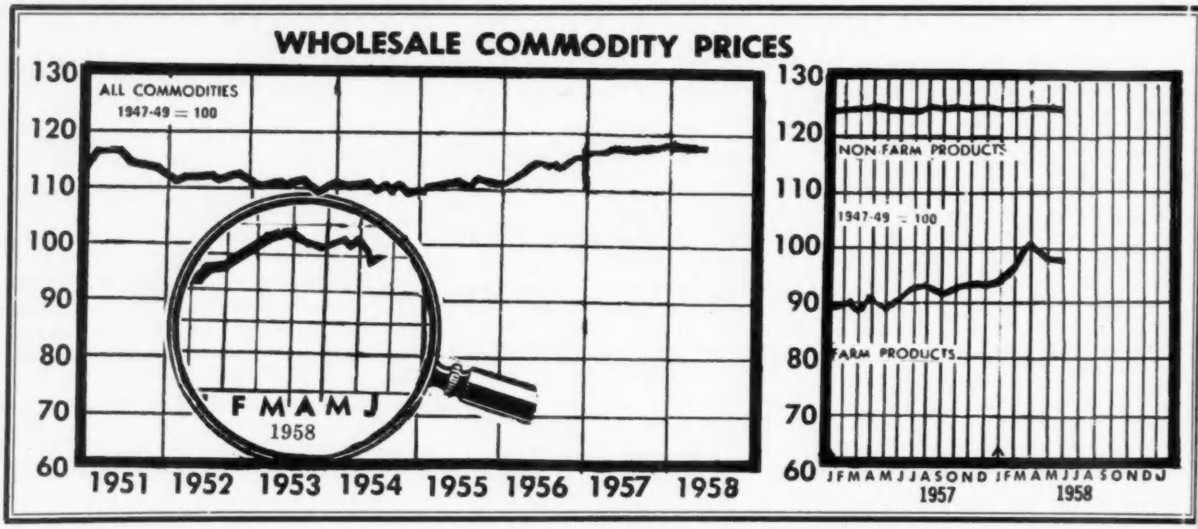
Trend of Commodities

SPOT MARKETS—Sensitive industrial commodities were considerably higher in the two weeks ending June 20, mainly reflecting the Government's proposals designed to boost prices for nonferrous metals. As a result copper prices were sharply higher while lead and zinc quotations improved somewhat. The metals' component of the BLS' daily index of 22 commodities jumped 4.0% in the period under review and this caused the composite index to rise 0.5% despite lower prices for foodstuffs.

The rank and file of commodities, meanwhile, have remained in a narrow range, with the exception of farm products, which have been in seasonal decline. The BLS' comprehensive wholesale price index lost 0.1% in the two weeks ending June 17 as a result of a drop of 0.6% for farm products.

FUTURES MARKETS—Futures followed diverse trends in the two weeks ending June 20. Metals were in demand on proposed Government actions and copper, lead and zinc all advanced. Grains were mixed, while coffee and cocoa were sharply lower. The Dow-Jones Commodity Futures Index lost 1.34 points during the period to close at 156.29.

Wheat futures were somewhat higher in the fortnight ending June 20, with the exception of the May, 1959 delivery. The nearby September option gained one cent but was still only 1¾ cents above the low for the life of the option. The peak of the harvesting season is approaching and this continues to exert pressure on prices. However, futures are selling well below the Government loan and this should eventually make for price improvement.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	June 17	119.0	119.1	117.4	60.2
Farm Products	June 17	95.4	96.2	90.9	51.0
Non-Farm Products	June 17	125.2	125.2	125.2	67.0
22 Sensitive Commodities	June 20	86.2	85.8	89.3	53.0
9 Foods	June 20	90.9	91.8	84.3	46.5
13 Raw Ind'l. Materials	June 20	82.9	81.7	92.8	58.3
5 Metals	June 20	87.1	83.7	102.9	54.6
4 Textiles	June 20	76.3	76.3	83.7	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

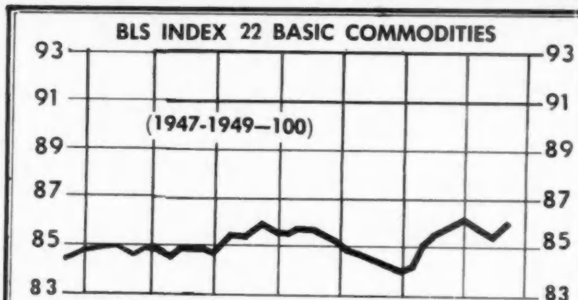
	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	147.1	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

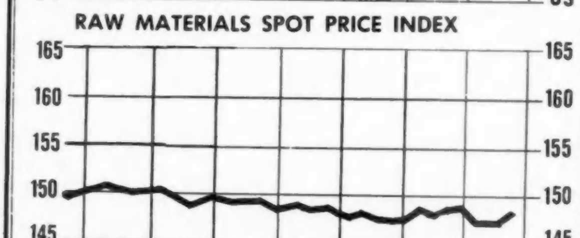
DOW-JONES FUTURES INDEX

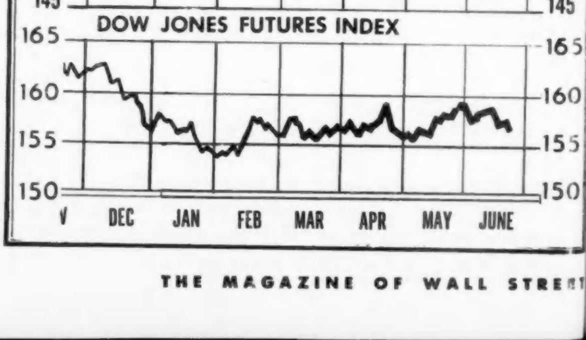
12 COMMODITIES

AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	154.1	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3







Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities at* reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Sperry Rand Corporation

"I understand that Sperry Rand Corp. has a very substantial backlog of defense contracts. Will you please give me the amount of this business and also inform me if this includes development and production business in the field of missiles, electronic equipment, etc. and also would like to know recent earnings of the company."

S. M., Los Angeles, California

Sperry Rand Corp. is one of the leaders in the electronics and automation fields, including radar and navigational equipment and computers. It is also important in the office equipment field including typewriters; Univac computers, etc. and also produces electric shavers, and farm equipment.

Backlog of defense business on the beginning of the current fiscal year April 1, 1958 amounted to \$637 million, against \$429 million the year previous.

Sales in the fiscal year ended March 31, 1958 totalled \$864,330,491, off slightly from \$868,987,021 in the previous fiscal year. Earnings declined to 96 cents a common share from \$1.74 in fiscal 1957.

The general business recession was the most serious adverse influence on earnings, according to General Douglas MacArthur, chairman, and H. F. Vickers, president.

Profits on certain lines of office equipment fell sharply and divisions supplying the automobile, construction and machine tool industries were affected by the lower rate of production in these industries.

In addition to the general business recession, changes in U.S. Government procurement policy also affected operations of the company. Of the two, the effect of the recession on the commercial business of Sperry was more serious.

Electronic instrumentation, controls and systems accounted for 39% of sales during the fiscal year; business machines, equipment and supplies, 33%; hydraulic equipment, 10%; farm equipment, 8%; other products and services, 10%. This breakdown of sales was made by the company.

Barring a deepening of the recession, the company looks forward to a substantially better showing in the fiscal year ending March 31, 1959.

Current quarterly dividend is 20 cents per share.

Fluor Corporation

"I would appreciate information on Fluor Corp. as to recent earnings, dividends and outlook."

M. R., Montclair, N. J.

Fluor Corp., Ltd. designs and constructs complete plants for the oil, gas, gasoline, chemical and power industries, and manufactures specialized equipment for industry, including natural draft and induced draft cooling towers using water and Fin-Fan units using air.

Consolidated net earnings of Fluor Corp. Ltd. for the 6 months ended April 30, 1958 amounted to \$775,000, equivalent to \$1.02 per share on the 760,394 shares of stock outstanding. This compares with net earnings of \$1,133,000 for the corresponding 6 months last year, or \$1.58 a share, adjusted on the basis of presently outstanding shares.

First-half consolidated net sales amounted to \$59,551,000, compared with \$75,637,000 at April 30, 1957. New orders received totalled \$67,500,000, compared with \$71,000,000 reported for the like period of 1957. The engineering-construction firm's backlog of uncompleted work at the close of the first 6 months was \$145 million, as against \$100 million one year earlier.

The president of the company attributed the 21% decline in first-half sales to a retarded rate of incoming business beginning in March, 1957. The outlook for the balance of this year is considered favorable, however.

For the fiscal year ended October 31, 1957 earnings were \$3.46 per share compared with \$1.02 in 1956.

Dayton Rubber Company

"I am a subscriber to your magazine and would appreciate receiving recent data on Dayton Rubber Co. and the outlook over coming months."

B. G., Carbondale, Pa.

Operations of Dayton Rubber Co. are well diversified and include tires for the replacement market and fleet markets, mechanical rubber goods, foam rubber, and new polyurethane products. Competition in the company's fields is intense.

Sales of the Dayton Rubber Co. for the 6 months ended April 30, the first half of fiscal 1958, increased moderately to \$38,210,005 and this compares with net sales of \$37,356,158 in the corresponding period of 1957.

(*Please turn to page* 446)

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Where the Investor Stands in the Break-Up of Transamerica

(*Continued from page* 413)

group, and is authorized to operate in all 48 states, although its activities are limited in New York state. Since 1953 life insurance in force has climbed from $4.5 billion to $7.2 billion, and premiums received have risen from $76.8 million to $109 million. Admitted assets were $404 million in 1953 and by the end of 1957 had mounted to almost $625 million. In the three years 1955 to 1957, net income from operations rose from $9.0 million to $11.0 million, while net profits from investments raised total net income from $12.7 million in 1955 to $15.1 million last year. Thus in 1957 each Transamerica share earned $1.37 just from the operations of Occidental. Capitalizing these earnings at the same 17 times earnings that characterize Lincoln National Life Insurance and similar companies, the Transamerica shares are worth their current market price of $23 on this basis alone. Moreover, the $250 million Transamerica rejected for Occidental boils down to just about $22 per share for each Transamerica share.

Other Holdings

Yet the market price gives no value whatsoever to the company's numerous other holdings. Granted they do not compare in size to Occidental, they are substantial, nevertheless. First in rank after Occidental are six fire and casualty insurance companies, the largest being the Pacific National Fire Insurance Company with admitted assets of over $45 million. Pacific, in turn, owns 10 per cent of the stock of the Premier Insurance Company with admitted assets of $14.3 million. In line with the experience of other fire and casualty companies, earnings have not been impressive in the last few years. In fact, underwriting operations have lost money and any net profits shown have been purely the result of investment gains.

As a result, the Transamerica parent, in the last few years, has enforced a strict policy of writing insurance on a highly selective basis, cutting down the direct premiums written, but curtailing losses as well. The new policy is graphically illustrated in the following figures:

	Direct Prem. Written ($ mill.)	Reins. Prem. Assumed ($ mill.)	Reins. Prem. Ceded ($ mill.)	Net Prem. Written. ($ mill.)
1957	40.3	4.2	8.9	35.7
1956	51.4	5.7	12.5	44.6
1955	53.6	7.6	13.2	47.9
1954	53.8	5.1	13.3	45.6

Retrenchment has been dictated by a combination of adverse factors common to most fire and casualty companies. Rates have been inadequate in light of the rapid rise in claims and the size of awards. In addition, the last few years have witnessed a series of severe disasters that have taxed the resources of even the largest companies.

In contrast to most insurance companies, the Transamerica subsidiaries fared well last year, as the new policy began to bear fruit. Although premiums written were off 20 per cent to $35.7 million, the net loss from operations was down to $2.4 million, or 43 per cent below the year earlier figure. As a result investment income effectively offset the losses, leading to a combined profit of almost $700,000 compared with only $470,000 last year.

As part of its policy of revamping the fire and casualty operation, Transamerica intends to slowly merge the six companies into the Occidental Life Insurance Company, both as a cost savings measure, and to provide its agents with full insurance-writing opportunities. It seems fair to assume that the recent revamping of the operation has strengthened the fire and casualty companies considerably.

Transamerica's interest in these companies, including its share of unearned premiums now exceeds $40 million, or almost $3.50 for each Transamerica share. Since fire and casualty companies are usually valued at roughly 67 per cent of liquidation value, somewhere around $2.40 represents a fair appraisal of each shareholders equity.

Non-insurance Holdings

Next in importance are Allied Building Credits, Inc., and the Capital Company. The former company buys, sells and services installment notes and mortgages originated by dealers and builders for home improvements and light commercial construction. It is the only company in the country devoted exclusively to this kind of operation, and conducts its business in 42 of the 48 states.

Depressed conditions for federally insured mortgages restricted overall operations moderately in 1957, but despite a small decline in the dollar amount of business handled, net income rose 15 per cent to $1,051,000 and dividends of $975,000 were distributed to stockholders.

The Capital Company is engaged in owning, developing and managing real estate. It owns office buildings, shopping centers, markets, farmlands and a hotel. In addition, Capital owns various oil and gas properties, including 146 producing wells in Texas and California. Other gas and oil leaseholds are scattered throughout California, Texas, Wyoming and New Mexico.

Rather than incur the risks of exploration and drilling, the company has leased its properties to others, retaining a percentage for itself if wells are brought in. In 1957 continued capital investment in developing office buildings and shopping centers cut into profits, but there was still a $414,000 return compared with $1 million the year before. As these properties reach the income producing stage, however, profits should pick up quickly.

The value of Allied Building, and Capital Company accruing to Transamerica stockholders is currently around $30 million, contributing approximately another $2.50 per share in tangible worth.

Minor Holdings

Rounding out the Transamerica family of fine companies are the General Metals Corporation and the Columbia River Packing Association, Inc., the latter enjoying national fame through its Bumble-Bee brand canned fishes.

General Metals had sales of $40 million in 1957 from three separate operations. The forge and foundry division accounts for about 40 per cent of revenues, the balance deriving from aircraft parts and marine and diesel engines. Costs ate into profits in 1957, largely owing to a two-month strike, but net still topped one million for the year. Most encouraging was the fact that sales

reached an all-time peak despite the two-month work stoppage.

Columbia River Packing, though small in relation to Transamerica's other interests, still scored almost $19 million in sales last year, and brought $767,000 down to net. The "Bumble Bee" brand has been one of the most successful and the company now ranks fourth among domestic producers in national sales of canned salmon and tuna.

All of these "other interests" combined, which the Transamerica shareholder owns gratis at the current market price, contributed another 45¢ per share to Transamerica's net income in 1957. From the nature of these operations and their successful growth to date, they should be regular contributors of "extra" earnings to the parent company. TA's earnings were boosted still further last year, by a 43¢ per share profit accruing from the company's $14.5 million securities portfolio.

Thus, the company's total earnings, not including banking operations, approximated $2.22 a share (including its equity in undistributed profits of subsidiaries) yet the market is appraising the stock solely on the basis of Occidental Life's $1.34 a share.

Conclusion

Stockholders of the old Transamerica will receive stock in two attractive packages. Long term holders can safely retain their share in both Firstamerica and the new Transamerica. But those interested in dynamic situations will probably fare better with TA than with Firstamerica.

Firstamerica is selling at a slight premium over comparable banking institutions and is consequently more vulnerable to adverse conditions in the industry, especially since dividend coverage is not wide.

Transamerica, on the other hand, is selling below its true earning power and its prospective 80¢ dividend is well covered. Moreover, life insurance offers highly attractive growth prospects, while the company's other operations appear to have weathered their worst trials and stand to remain consistent contributors to earnings. Selling some $7.50 below its actual asset value, it must be concluded that TA has fairly attractive growth possibilities. —END

Procter and Gamble Colgate-Palmolive

(*Continued from page* 423)

dividends of $2.00 a share. On the same basis, expenditures of Colgate-Palmolive equaled $16.20 a share for 1957 compared with net of $7.80 reported for that year and dividend payments of $3.25.

To question any aspect of advertising in the consumer goods industries is considered heresy in many businesses. And the conclusion is quite warranted that Procter & Gamble and Colgate-Palmolive are not only among the country's largest advertisers, but also among the most skillful. This is at least one measure of advertising skill.

Acquisition of Other Companies

One aspect of growth common to most industries these days is the acquisition by merger or purchase of small competing or affiliated companies by the leaders in an industry. Procter & Gamble has followed this trend to a certain extent by purchase of companies with a view to broadening its line of household goods. In 1957 it acquired one company which manufactures cake mixes (Duncan Hines), another which manufactures tissues (Charmin Paper Mills), and a third which manufactures disinfectants (Chlorox Chemical). These new acquisitions are expected to play only a minor role in the company's earnings over the near term.

On its part Colgate-Palmolive has made no comparable moves in recent years, although it may acquire affiliated enterprises at any time.

Growing Importance of Foreign Income

Referring again to Table 1, it will be noted that we have segregated consolidated net income of both companies to show the relative importance of foreign income. Earnings of Procter & Gamble's subsidiaries outside of the U.S. accounted for approximately 17% of the company's total income. However, those of Colgate-Palmolive represented almost two thirds of the latter's total net profits and were substantially above those of Procter & Gamble.

Foreign income of both companies has been showing a rapid growth in recent years and has been playing a role of greater importance in each company's earnings. This is particularly true as regards Colgate-Palmolive. During the past two years for example a gain of $4.8 million in its foreign income has more than offset a decline of $2.0 million in domestic profits. Moreover, the gain of $4.2 million in Procter & Gamble's foreign income in fiscal 1957 almost equalled the gain of $4.3 million in its domestic profits for the same year, although it was an exceptionally good year at home.

Considering the present business recession in the United States and the relatively well maintained levels of economic activity in many other parts of the world, it seems very probable that overseas income of both companies will continue to grow over the next few years. It should be noted that foreign sales are substantially more profitable than domestic sales. Barring some major breakdown in world trade, the favorable outlook for foreign income gives an added value to the investment appeal of Colgate-Palmolive and moderately to that of Procter & Gamble.

Price-Earnings Ratios . . . Yields

For the nine months ended March 31, 1958 Procter & Gamble earned $2.75 a share as against $2.63 for the same period of the year before. It is expected to earn at least $3.50 for the fiscal year ended June 30, 1958. For its part Colgate-Palmolive earned $1.72 a share for the quarter ended March 31, 1958, up from $1.69 for the year-earlier quarter. (It is rather pertinent to note that during this quarter a 28% decline in domestic profits was more than offset by a 21% increase in foreign profits). For the full year 1958, earnings of Colgate-Palmolive should compare well with the $7.80 a share scored for 1957. Dividends being paid by both companies ($2.00 by Procter & Gamble and $3.25 by Colgate-Palmolive, including a $0.25 year-ended extra) appear secure.

Neither company of course should be considered depression-proof. However, it none the less is true that the soaps, detergents, toiletries and other products the two companies make are indeed in the nature of consumer necessities. This being the case, their domestic sales rest on the strongest part of the American economy.

At its current price of 61 Proctor & Gamble sells at 17.4 times its estimated earnings for the year ending June 30, 1958 and on its present dividend yilds 3.3%. By comparison Colgate-Palmolive at 62 sells at 7.9 times its 1957 earnings and on the basis of its indicated 1958 dividend yields 5.2%. Considering these important investment ratios, its leading position in foreign markets, and the steps the company has been taking to strengthen its hand in domestic markets, Colgate-Palmolive appears to be the more attractive investmentwise at this time. —END

Our Stake in Latin America

(*Continued from page* 410)

promoted our own growth. During the last few years United States investors have been pouring approximately one-half billion dollars a year into Latin America and the total now is more than $8.5 billion. The investments have been well diversified—manufacturing and service industries and production of vital raw materials. In 1955, according to U.S. Department of Commerce studies, United States companies paid salaries totaling $1 billion to 625,000 employees, of whom only 9,000 fame from the United States. They paid local governments $1 billion in taxes in 1955 and made sales abroad, for dollars, passing the $2 billion mark.

Government Loans

The position of our State Department is that the climate is favorable in Latin America for private investment although it is realized that there are situations in which government-owned entities must supplement the financing. During the past decade, United States direct loans to Latin America under the auspices of the Export-Import Bank have amounted to more than $2 billion. At the same time, additional United States public funds have been going there through our participation in the World Bank, the International Monetary Fund, the Technical Assistance Program of the United Nations and the Organization of American States. The Export-Import Bank operates on the principle that no economically sound development project in Latin America shall fail for lack of access to capital from other sources to cover its dollar needs. Recent loans have been as small as $50,000 and as large as one to Brazil for $100 million for modernization of its railroad system. The record of loan repayment is uniformly excellent.

This year for the first time the United States has money available under the Development Loan Fund. Several applications from Latin America will be acted upon shortly. The Fund is designed primarily to extend loans for financing projects in the Free World which contribute to economic development and which cannot otherwise be financed by existing international or private institutions. Repayment may be in local currency over a long term at reasonable interest rates.

Greater Understanding on Both Sides Needed

United States aids to the Latin American economy have been neither few in number nor pennypinching. Each government, ours included, must adopt the measures it considers in the best interest of its own nationals and cannot delegate the choices to other nations. Some of the steps we have taken have hurt Latin America and the necessity for them is not always fully understood below the obrder. For example, prior to World War II, several of those nations had large reserves in the United States and intended to use them for major, long-term developments. They budgeted costs of machinery, rolling stock, and other items, drafted their plans accordingly. Naturally orders could not be filled during the war; when the conflict ended, our price ceilings went off at once. The result was disappointing curtailment of the prewar programs. Out of that flowed resentment.

Dr. William Manger, for more than 40 years associated with OAS and other inter-American agencies, now retired, had this counsel:

"The several proposals that have been made in the past days that high level consultations be undertaken on the present state of our inter-American relations have much merit and come at a particularly opportune moment. They have merit because they afford an opportunity of taking the first step in reversing the downward trend in inter-American relations that has been altogether too long in process and that can be corrected only by positive and dramatic action.

"We are prone to attribute the ills that today beset the inter-American system to the failure to solve the economic problems that confront our member States. No doubt this is the most immediate problem and one that calls for prompt action. But the failure in this respect is merely the consequence of a more basic weakness that has been manifesting itself

at an increasing tempo in the past 10 years. To restore our inter-American relations to the high level on which they should function it is obvious that we must find a new spirit. The reaffirmation of that spirit must come from the governments. It must find expression through the voices of the highest and most responsible representatives of the people of our several countries. Preferably, these voices should be those of the Chiefs of State themselves, expressed personally or at least through the medium of their Foreign Ministers. The manifestation of that spirit must find expression in practical application. Time, however, is of the essence. The proposals are steps in the right direction. They should be acted on promptly." —END

Merchandisers Try New Techniques To Maintain Profits

(*Continued from page* 420)

centers." The loss incurred in the quarter ended April 30, 1958, was the first since the July quarter of 1951. Possible causes were bad weather and unemployment in Northeastern and Midwestern states where almost 70% of the Company's stores are located; also the sudden closing in March of the Jordan Marsh unit in San Diego because of disappointing business. However, the unfavorable results of a single period are not evidence of impaired earning power. We look for the remainder of the year, including the important Christmas season, to provide enough earnings to warrant continuation of the annual dividend of $3.00 a share, paid since 1946.

Associated Dry Goods: The acquisition by late last year of Sibley, Lindsey & Carr, the largest department store in Rochester, apparently caused a temporary dilution of per share earnings. However, this addition, with others made since, and still others in prospect, should contribute to future earnings expansion and extension of the Company's excellent past record. The $2.00 a share annual dividend is covered by a good margin and appears safe

Federated Department Stores became last year the largest department store chain in the U. S. The organization, which does not share the common view that downtown department stores are obsolescent, nevertheless is expanding its chain of branch stores vigorously. Three new suburban stores were opened last year, one more is scheduled this year, another is under construction. Also the downtown store in Columbus, Ohio, is being enlarged by a third. In March 1958 Federated raised its quarterly dividend from 40 to 45 cents a share despite a very modest gain in earnings last year and substantial capital expenditures ahead. With new units available to contribute to profits Federated may well chalk up another earnings gain this year.

Gimbel Brothers: The rising trend displayed by earnings since 1954 (partly in reflection of the store's vigorous expansion program) slowed down last year. Sales of stores opened in the last three years constituted 18% of last year's volume. In the three months ended April 30, 1958, although sales continued to expand, net income was only a little more than half that of the same period of last year. Only two new suburban branches are scheduled to open this year, compared with four (in New York, Philadelphia, Pittsburgh, and Milwaukee) in 1957. Earnings will probably make better comparisons in subsequent quarters, as the new units opened last year reach full operation, but talk of an early increase in the dividend rate has subsided.

R. H. Macy & Co.: Another drop in earnings during the fiscal year ending June 30, 1958 was probably caused by the strike in the Toledo store, Lasalle & Koch Co., the New York subway strike last Christmas, the recession, and adverse weather. However, the dividend seems in little current danger since capital expenditures will be lower this year as the expansion program pauses. New units should contribute increasingly to sales and earnings in the next fiscal year.

May Department Stores: The aggressive expansion program in recent years, which has so far produced only ordinary gains in per share earnings, with a dip last year and the first quarter of this year, involves only one opening in 1958, but will resume momentum thereafter. The liberal dividend is likely to be continued.

Montgomery Ward is now rapidly putting to work some of the liquid assets so long held idle. During last year the Company opened the first new retail store it has built since 1941, completed major rehabilitation projects at six stores, redecorated 95, and installed air conditioning in 25. It made its first venture into manufacturing in 30 years. Revolving charge account privileges were made available in 80 stores last year, and are to be extended to 400 more this year. Earnings do not yet reflect the effect of these moves and are not likely to do so for another year at least. The $2.25 a share annual dividend was paid last year althought not fully earned, but there is some doubt whether payments this year will exceed $2.00 a share. The stock currently sells well below the value per share of net working capital less preferred stock.

Sears Roebuck: The combined influences of keener competition, rising costs, depressed earnings of the insurance subsidiary, and the poor outlook for large appliance sales may well cause another decline in earnings of Sears, Roebuck & Co., this year, perhaps to the level of 1954. This raises a question whether the quarterly dividend of 25 cents a share will be supplemented this year with a 10 cents extra, such as declared last year, or stock.

W. T. Grant Co.: The expansion program has been one of the most active in the industry in recent years, but in 1956 and 1957 earnings did not match sales growth. Nevertheless, the earnings record is one of the best in the field. Merchandise lines have been widened to include higher priced merchandise, apparently with the aim of attaining "junior department store" status. Liquid finances were strengthened last year by the sale of a substantial amount of customer instalment accounts. Continuance of the dividend is not in question.

S. S. Kresge: One of the few variety stores to report larger earnings in 1957, this company expects similar results in the first half of 1958. The chain has been moving more vigorously than most in this field in the direction of shopping centers in suburban areas and replacement of sales-

clerk service by check-out operations. Plans for 1958 call for stores in the South and Southwest, extending operations formerly concentrated mostly in the Midwest. Even though earnings for the full year may dip, the dividend seems reasonably secure.

S. H. Kress Company: The former president, vice president, secretary and treasurer resigned recently, following threat of a proxy contest from trustees of the Kress Foundation, who were dissatisfied with the results of recent years. The sharp decline of earnings last year to the lowest level since 1945 has narrowed the margin of dividend coverage to the point where the rate can hardly be considered safe. Even the new management headed by George L. Cobb, former president of Zeller's, a Canadian variety chain, may have difficulty in restoring earning power quickly to anything like the levels attained in former years.

G. C. Murphy: The enterprising management, which has given it the largest sales per store and made it one of the fastest growing chains, added Quick Service stations (Murphy's own modification of the self-service principle) in 230 of its 321 stores last year, and achieved an earnings gain in the final six months despite deteriorating general business conditions in the territories served. Further expansion, although at a slower rate, is projected for 1958. Even if earnings should decline this year, the fact that Murphy's dividend constitutes a payout of only a little over 50% of earnings virtually assures its continuance at the present rate.

J. C. Penney Company: Not content with its superior past record, this company is planning to experiment with credit service, for the first time since its founding in 1902, in 23 of its approximately 1,700 stores, beginning this Fall. Also Penney plans to open 19 new stores, relocate others, and improve about 170. These moves, plus concentration on the relatively favorably situated apparel line, and careful expense control will, we believe minimize the effect of recession conditions on 1958 earnings. Dividend payout is liberal, but almost 30% of total distribution each year consists of an extra, the size of which depends on earnings in the important last half of the year.

F. W. Woolworth Co.: At the recent annual meeting Board Chairman J. T. Leftwich assured stockholders that both sales and earnings in the first half of 1958 will top the same period of last year. Woolworth's is increasing the number of its own brands, and is continuing its advertising campaign and its program of modernizing and expanding stores and converting to self-service. The wide geographic coverage of the world's largest variety chain makes it sensitive to general economic conditions, so that some decline in earnings for the year as a whole is a reasonable expectation. However, we doubt that the drop will be sufficient to cause even consideration of any change in the dividend rate. END

The Investor and the Railroads Today

(Continued from page 427)

the economy, although the operating performance has been comparatively satisfactory for a railroad. Passenger business during the winter was hard hit. Earnings this year should exceed $3.25 per share or so, pointing to an approximate ten times price/earnings ratio for the stock. The dividend yield of over 6% is in line with other upper medium grade railroad stocks. The long term outlook for the company is promising, and a resumption of better business conditions, particularly in the paper industry, should be beneficial.

Kansas City Southern has benefitted from a satisfactory volume of grain shipments, and since the traffic composition of the railroad is well diversified, revenues have held up relatively well this year. Earnings are estimated about 20% below last year's combined $9.29 per share, which portends excellent coverage for the $4 dividend. The stock seems worthwhile for investors desiring a yield of 6% and excellent appreciation prospects relative to other railroads.

Louisville & Nashville coal and industrial shipments slid moderately during the first several months of 1958, and unless general business picks up rapidly, no more than narrow coverage is foreseen for the $5 dividend. Long term prospects for the railroad are reasonably satisfactory, although other stocks seem to provide as good if not better values.

Southern Railway revenues were reduced, but the superior operating abilities of management appear to have withstood the decline to a praiseworthy degree. Some pickup of business for the road is foreseen, and full-year earnings may not fall greatly from last year's $4.78 per share. The $2.80 dividends provides the intriguingly high yield of nearly 7%, and the stock therefore seems undervalued at these prices.

Missouri Pacific revenues and earnings have been recorded at rates slightly below last year, but on the whole, operations have been satisfactory. This large railroad serves a territory which should produce improved traffic over the long term. The bonds sell on a high yield basis, and the preferred and Class A common are suitable for income.

Illinois Central and **Gulf Mobile & Ohio** operations have been under par, and the latter road reported a deficit in earnings earlier this year. Of the two, the Illinois Central seems better prepared to cope with the current recession, although other stocks, such as Kansas City Southern, Southern Pacific and Chesapeake & Ohio seem relatively more attractive, and their dividend yields are excellent.

Pocahontas Coal

Chesapeake & Ohio revenues during the first fourth months dropped by about 22%, largely a reflection of lower coal and industrial shipments. Earnings were reasonably well maintained with comparatively little threat to the $4 dividend, which yields approximately 7.3%. The coal outlook has brightened materially during the past several years, along with increasing industrial development, so that a return of better business conditions sholud be most beneficial.

Norfolk & Western, one of the nation's top grade railroads, experienced a drop in traffic similar to the C. & O. Earnings now appear on the mend, and the $3.60 dividend (yielding 5.6%) should be covered by a good margin. The chances stand against payment of a dividend extra.

Virginian revenues were off about 25% during the first several months, owing to lower industrial production as well as to a falloff of European coal shipments. German industry has been buying coal from Poland, and Japan has commenced coal purchases from Manchuria. Eastern Gas & Fuel, a diversified holding company, own Virginian stock through the Virginia Company, and this is considered an excellent way to participate in this top-grade small railroad.

Mid-West and Great Lakes

Railroads such as *Chicago & North Western, Chicago, Milwaukee, St. Paul & Pacific,* and *St. Louis-San Francisco* have reported deficits this year, and they should not be considered suitable for the average investor. The Nickel Plate *(New York, Chicago & St. Louis)* has also suffered from the industrial recession, and fears are in order concerning dividends this year. The *Erie, Delaware, Lackawanna & Western* and *Delaware & Hudson* have reported unimpressive earnings and the immediate outlook does not allow much optimism. These three carriers are expected to merge eventually, which should permit worthwhile operating savings.

The *Pennsylvania* and *New York Central* have reported large deficits, and dividends may be token if at all. The Pennsylvania indicates that a deficit for the year may be reported.

Other Eastern Railroads

Reading revenues and earnings turned disappointingly poor commencing last year, and a deficit was reported during the first four months of 1958. The *Boston & Maine* and *New Haven* are suffering from large passenger deficits, and cash resources are strained.

Baltimore & Ohio and *Western Maryland*, which have improved their financial status during the postwar period, suffered reduced revenues but managed to reveal earnings "in the black". Stock prices for both companies have increased and are near the highs for the year, probably in anticipation of better earnings to come if business picks up. Both stocks are highly leveraged. The outlook for other railroads, particularly the western carriers, seems more attractive than the eastern lines at this time for dividend income and appreciation prospects.

Conclusion

This has been a difficult year for the railroads to record much progress as to earnings. It has been even more trying because capital expenditures for new locomotives, cars and electronic aids to efficiency have been necessarily reduced. Meanwhile, wages have increased. If business conditions fail to pick up materially, it is evident that many of the weaker eastern carriers will run out of funds, and earnings elsewhere in the industry will be seriously reduced. The year 1958 has been one of poverty rather than progress for the railroads. —END

For Profit and Income

(*Continued from page* 431)

textiles. For the last named the postwar high was reached as far back as 1951. Basis for new bull-markets, as distinct from recoveries, are not apparent in any of these groups; or in a number of others which remain below earlier tops, including: building materials, electrical equipment, liquor, shoes, steel, sugar, shipbuilding and tires. When you run down the stock groups this way, you have to wonder how long speculators and investors, including mutual-fund managers, can maintain their high hopes as regards general market performance ahead.

Reaching Down

To get a good dividend yield today the investor has to assume risk in cyclical-stock selections or "shop around" among income stocks which for one reason or another have been relatively unpopular. However, dividends on some of the latter have been continuous for many years and appear secure at present rates. A few examples follow.

American Snuff

Snuff is not a vigorous industry, but it is not as dead as some imagine. Profit of American Snuff Company gained moderately in each of the last six years, reaching a record $4.51 a share in 1957. It figures to be well maintained this year, and may again be a little higher. Dividends have been continuous since 1903 and generally liberal. The present basis is $3, including a recent 20-cent extra. Finances are comfortable. Now at 53¾, the stock yields over 5.5%.

American Bakeries

This is one of the larger bread bakers. It has paid dividends steadily since 1928, with payments around two-thirds of earnings in recent years. Profits in the postwar period have ranged between $2.61 and $3.94 a share. They were $3.49 in 1957 and probably will not change much this year. The $2.40 dividend looks secure. Finances are adequate and have been improving for some time. The stock yields around 5.8% at 41.

Kresge

Variety store stocks have long been unsatisfactory holdings. However, after the earlier postwar shrinkage, profits of some companies have stabilized or improved. Those of Kresge gained modestly in each of the last three years, with 1957 net $2.62 a share. It should about equal that in 1958. Finances are in good shape. The $1.60 dividend is well protected. Payments have been continuous since 1913. At 28¾ now, the stock yields about 5.5%.

Answers to Inquiries

(*Continued from page* 438)

Earnings for the fiscal year ended October 31, 1957 were $1.48 per share compared with $2.79 in 1956.

The upward trend in the company's earnings, which began in January, 1958, continued through the second quarter, reflecting only a small portion of the economies and improvements made in earlier months. Earnings for the second quarter of this year were 50% above those for the first 3 months of the year.

The company expects further gains during the remainder of this fiscal year. Dayton's business normally reaches its peak in the second half of the year.

Net earnings after taxes totalled $503,158, equal to 44 cents

(*Please turn to page* 448)

per share, based on an average of 1,033,770 shares outstanding during the period. This compares with net earnings of $917,205, or 95 cents per share on an average of 918,807 shares outstanding during the first 6 months of 1957.

Not included in the above figures is Dayton Rubber's one-seventh share of the undistributed earnings of Copolymer Rubber & Chemical Corp. The company's share of such earnings was equivalent to approximately 24 cents per share. If these earnings were consolidated with those of Dayton Rubber, they would total 68 cents per share for the first half.

Current quarterly dividend is 35 cents per share.

BOOK REVIEWS

Marie Fedorovna Empress of Russia

By E. E. P. TISDALL

Marie Fedorovna, Empress of Russia, grey up in Denmark as Dagmar, the daughter of obscure Prince Christian of Schleswig-Holstein and Princess Louise of Hesse-Cassel. Then, with only the bleakest prospects for the future of her parents, the fortunes of Dagmar's family changed almost overnight. Her father became King Christian IX of Denmark; her brother William was invited to become King of Greece; and her sister Alexandra married Albert, Prince of Wales, and later became Queen of England.

At home in Copenhagen, Dagmar missed the dazzling personality of her sister "Alix" once she had gone with Prince Albert to live at Buckingham Palace, but not for long was her own beauty to go unnoticed. In 1863, when Dagmar was only seventeen, the Empress of Russia and her eldest son, the handsome Nicholas, visited their Danish relatives at the royal palace in Copenhagen. The young Danish princess and the Romanoff prince had long been good friends, but she was completely taken by surprise when during a conversation about Russia he asked her, speaking rapidly and excitedly: "Would you like to be a future empress of Russia?" If Dagmar had begun to expect some kind of declaration, the manner in which it was delivered was a shock. After appraising the nature of the question, she was cooler than she might have been in the face of more romantic advances: "Do you want me to be a future empress of Russia?" "Yes." "Then I would like to be . . ."

Shortly after the princess and the tsarevitich became affianced, a surprising thing happened. Nicholas suffered a severe accident while horseback riding, and summoning Dagmar and his brother Alexander to his bedside, he begged them to promise that in the event of his death they would marry each other. They promised, and two hours later the prince died. True to her word, although she scarcely knew him, Dagmar married the strange, gifted, massive "Sasha," now the heir to the Russian throne, and was named Marie Fedorovna, Tsarevna of Russia. Upon the assassination of her father-in-law, Alexander II, Sasha was crowned Alexander III, and Marie Fedorovna became Empress of Russia.

Marie Fedorovna's first impression of imperial life in Petersburg had been one of constant gaiety and glittering opulence, beautiful, heavily-jeweled ladies, breath-taking gowns, all-night balls, tables of gold and silver plate, endless champagne, and countless servants. With the first months of her husband's reign there came, however, the startling realization that Russia, in spite of the frivolity and magnificence of its royalty, was a vast scene of starvation and seething political and social unrest. Murder, bombings, and attempted assassinations grew common. The Russian revolution had begun, and the Empress, not long after the death of her husband, was to witness the emergence of Rasputin, followed by the assassination of her son, Tsar Nicholas II, and his entire family, with the possible exception of Princess Anatasia. Thus Marie Fedorovna, exiled to England, became the last living member of the ruling Imperial Romanoffs.

John Day $5.50

The First Ten Years

A Diplomatic History of Israel

By WALTER EYTAN

This is neither a work of speculative theory nor an official White Paper, but a short and luminous narrative account, written behind the scenes and close to the summit of Israel's foreign affairs during the first ten years. With characteristic understatement the author calls them "ten very full years." Although he never resorts to emotionalized writing, he sets these first ten years in the long perspective of history, from the ancient passion and dream of a scattered people for its own homeland, through two millennia of stored-up anguish, to the "culmination unparalleled" in the spring of 1948, when the day of independence dawned for Israel. We see, in full diplomatic detail, how a dark chapter of persecution, degradation and discrimination closed; and a new and complex responsibility devolved at last upon a state that literally had to fight for its life from the moment it was born.

As Director-General of Israel's Foreign Ministry, Walter Eytan is uniquely qualified to guide the reader through the dramatic decade of mandate, partition, mediation, siege, truce, armistice, conciliation, and warfare that marked her first years of statehood. We see how crucial international conferences were really conducted. We see the new state build a foreign service as finally both a dream and a destiny are fulfilled.

Simon & Schuster $4.00

Land Without Justice

By MILOVAN DJILAS

This is the autobiography of the youth of Milovan Djilas, who rose to be second to Tito and one of the leaders of international Communism. It is also a story of a remarkable if little-known land, Montenegro, for Djilas writes, "The story of a family may be the portrait in miniature of a land."

Djilas's first memories were of heroism and violence; the soil of his Montenegrin village was nourished by blood. In him is reflected the soul of his kinsmen, a fiery independent people, dark with misery yet healed by visions of beauty. The Montenegrins come vividly to life in Djilas's intense, poetic writing.

The circumstances in which this book was written, the added dimension it gives to a dramatic figure, the simple, lyrical beauty of its style—all combine to make it a great autobiography. Today the author sits in a Yugoslav prison cell living out another chapter in one of the most striking human stories of our time.

William Jovanovich, who has written the introduction and notes, is President of Harcourt, Brace and Company. The translator is an American university professor who, at his own request, must remain anonymous.

Harcourt, Brace $5.75

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